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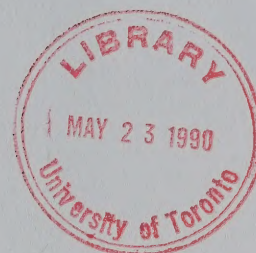


National Energy Board

Reasons for Decision

TransCanada PipeLines
Limited

RH-3-89



March 1990

Tolls

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**National Energy Board
Reasons for Decision
In the Matter of
TransCanada PipeLines Limited - Application dated
26 June 1989 for New Tolls - RH-3-89**

ERRATA

After the words "Therefore, IPAC submitted..." at the bottom of page 26, Section 5.2.2.6, please add the following line which was left out due to a production error:

"... that the Board should establish a ceiling or a percentage ..."





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National Energy Board

Reasons for Decision

TransCanada PipeLines Limited

Application dated 26 July 1989 for Tolls

RH-3-89

March 1990

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Cat. No. NE 22-1/1990-4E
ISBN 0-662-17806-8

This report is published separately
in both official languages.

Copies are available on request from:

Regulatory Support Office
National Energy Board
473 Albert Street
Ottawa, Canada
K1A 0E5
(613) 998-7204

Printed in Canada

Ce rapport est publié séparément
dans les deux langues officielles.

Exemplaires disponibles auprès du:

Bureau du soutien de la réglementation
Office national de l'énergie
473, rue Albert
Ottawa (Canada)
K1A 0E5
(613) 998-7204

Imprimé au Canada

Recital and Appearances

IN THE MATTER OF the *National Energy Board Act* and the regulations made thereunder;
and

IN THE MATTER OF an application by TransCanada PipeLines Limited for certain orders
respecting its tolls pursuant to Part IV of the *National Energy Board Act*; and

IN THE MATTER OF the National Energy Board Hearing held pursuant to Order RH-3-89;

HEARD in Ottawa, Ontario on 27, 28, 29 and 30 November and 1, 4, 5, 6, 7, 13 and 14
December 1989.

BEFORE:

W.G. Stewart
A.B. Gilmour
K.W. Vollman

Presiding Member
Member
Member

APPEARANCES:

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J.C. Schatz
J.S. Koskie
J. Lutes
J.W.S. McOuat, Q.C.

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I.C. MacNabb

Canadian Gas Association

C.K. Yates

Canadian Petroleum Association

A.S. Hollingworth

Independent Petroleum Association of Canada

G.J. Pratte

Industrial Gas Users Association

R.J. Harrison
T.G. Kane

ANR Pipeline Company and Champlain
Pipeline Company

C. Page

Alberta Natural Gas Company Ltd

L.E. Smith

Boundary Gas, Inc.

J.H. Smellie

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H.T. Soudek

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Gaz Métropolitain, inc.

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A.R. O'Brien	Michigan Consolidated Gas Company
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W. Fruehauf	PPG Canada Inc.
G. Giesbrecht	Pan-Alberta Gas Ltd.
N.J. Schultz	Tennessee Gas Pipeline Company and Viking Gas Transmission Company
G.K. Cameron	Union Gas Limited
M. Renaud A.M. Bigué	Vermont Gas Systems, Inc.
B.E. Hulse	Western Gas Marketing Limited
L.L. Manning	Alberta Petroleum Marketing Commission
V.J. Black	Minister of Energy for Ontario
J. Robitaille	Le Procureur général du Québec
D. Bursey S. Scott	National Energy Board

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Abbreviations

AFUDC	allowance for funds used during construction
CGA	Canadian Gas Association
Consumers' or Consumers' Gas	The Consumers' Gas Company Ltd.
CPA	Canadian Petroleum Association
CPI	consumer price index
DCF	discounted cash flow
Direct	Direct Marketing Energy Limited
FERC	Federal Energy Regulatory Commission
GJ	gigajoule
GMI	Gaz Métropolitain, inc.
Great Lakes	Great Lakes Gas Transmission Company
IGUA	Industrial Gas Users Association
IPAC	Independent Petroleum Association of Canada
IS	Interruptible Transportation Service
kPa	kilopascal
LCT	Large Corporations Tax
long-Canada	long-term Government of Canada bond
Mcfd	thousand cubic feet per day
NEB or the Board	National Energy Board
NGVR	Natural Gas Vehicle Research
Northern Natural	Northern Natural Gas Company
Ontario	Minister of Energy for Ontario
PGA	Purchase Gas Adjustment
SNG	synthetic natural gas
STS	Storage Transportation Service
10 ³ m ³	thousand cubic metres

$10^3\text{m}^3/\text{d}$	thousand cubic metres per day
10^6m^3	million cubic metres
TCPL or the company	TransCanada PipeLines Limited
the Act	National Energy Board Act
TSE	Toronto Stock Exchange
Unigas	Unigas Corporation
Union	Union Gas Limited
Vector	Vector Energy Inc.
Westcoast	Westcoast Energy Inc.
WGML	Western Gas Marketing Limited

Overview

(NOTE: This overview is provided solely for the convenience of the reader and does not constitute part of this Decision or the Reasons, to which readers are referred for the detailed text and tables.)

The Application

On 26 July 1989, TCPL applied to the Board for new tolls to be effective 1 January 1990. The application was revised on 27 September 1989 to reflect the Board's decisions in the TCPL RH-1-88 Phase II tolls proceeding.

The application dealt with the issues of rate base, cost of service and rate of return, and no evidence was heard on toll design and tariff matters, other than for the throughput forecast.

The Hearing

The public hearing, which lasted eleven days, was held in the NEB's hearing room in Ottawa. The hearing of evidence commenced on 27 November 1989 and continued until 7 December 1989. Final argument commenced on 13 December 1989 and concluded the next day.

Relocation of TCPL's Corporate Offices

On 27 October 1989, TCPL announced that its corporate offices would be moved from Toronto to Calgary during 1990. In view of the difficulty in accurately forecasting the cost of the relocation and its impact on the level of TCPL's 1990 departmental and general expenses, the Board decided to accept a proposal from TCPL to amend its application to delete its 1990 departmental and general expense forecast and substitute the approved forecast for 1989 with adjustments for salaries and the NEB Cost Recovery Program. The Board further decided to authorize a Corporate Relocation deferral account in which to record the costs and savings related to the move, as well as any variance between the actual 1990 departmental and general expenses and the approved level.

Interim Order

The Board made TCPL's existing tolls interim effective 1 January 1990, and a decision respecting final tolls was issued on 5 February 1990, thereby avoiding the need for TCPL to bill its customers on an interim basis.

Revenue Requirement

The approved 1990 revenue requirement, net of miscellaneous revenue, is \$934.2 million, or \$20.5 million less than the 1990 revenue requirement applied for by TCPL. The \$20.5 million reduction resulted primarily from a lower approved rate of return on common equity and lower related income taxes.

The approved 1990 revenue requirement for toll design purposes of \$934.2 million results in approved tolls to the Eastern Zone being 1.4 percent higher than the average tolls in effect in 1989.

Decision on Throughput Forecast

The Board accepted TCPL's 1990 throughput forecast of 41 623 10⁶m³ of which 29 248 10⁶m³ is forecast for the domestic market, and 12 375 10⁶m³ is forecast for the export market. This represents an increase of 5 percent for domestic volumes and 24 percent for export volumes.

Rate of Return

The Board approved a rate of return on common equity of 13.25%, which was one percentage point lower than the rate requested of 14.25% and one-half of one percentage point lower than the previously approved rate of 13.75%.

Income Taxes

The Board approved income taxes of \$72.4 million which was \$9.3 million less than the \$81.7 million requested. This difference reflects primarily the difference between the applied-for and approved equity return, as well as decisions regarding income tax on preferred share dividends, the Large Corporations Tax and carrying charges on the Income Tax Reassessment deferral account.

Operating Costs

Transmission by Others expense was reduced by \$0.9 million in anticipation of TCPL exercising the shipper-provided fuel option on the Union Gas system.

Operating costs were further reduced by \$1.6 million to reflect decisions the Board made regarding the transmission employee vacancy rate, the forecast temporary transmission employee complement, the applied-for annual rate of increase for salaries, the Management Incentive Program, and the departmental and general expense levels applied for by TCPL to be used in conjunction with the Corporate Relocation deferral account.

New Deferral Accounts

In addition to the Corporate Relocation deferral account noted above, the Board authorized new deferral accounts for prime mover overhauls and repairs and mainline pipe maintenance, Union Gas demand volumes, and Union Gas commodity volumes. Further, a new deferral account for capital additions was established in view of the large planned capital additions and the difficulty in forecasting project costs and in-service dates.

Background and Application

On 26 July 1989, TransCanada PipeLines Limited (“TCPL” or “the company”) filed an application pursuant to Part IV of the *National Energy Board Act* (“the Act”) for new tolls for 1990. This application was subsequently revised by TCPL on 27 September 1989, to take into account decisions the National Energy Board (“NEB” or “the Board”) made in the TCPL RH-1-88 Phase II tolls proceeding. TCPL requested that the Board use a written procedure to consider the application or, in the alternative, use a part written and part oral proceeding.

After considering the issues involved with TCPL’s toll application and the request put forward by TCPL that the application be considered in writing, the Board decided on 15 September 1989 to institute a part written and part oral proceeding. The initial form of the proceeding was to be that the evidence on rate of return would be heard orally and all other issues would be considered concurrently by way of written submission. The proceeding was to conclude with oral argument on all issues.

Before finalizing the directions on procedure, the Board provided interested parties with an opportunity to comment on what other issues they considered to be more appropriately dealt with by way of oral examination. The Board also indicated, at that time, that the overall scope of the hearing was to be limited to an examination of cost of service, rate base and rate of return issues and no evidence was to be heard on toll design and tariff matters, except for throughput forecasts.

Many of the parties who responded were opposed to hearing any of the issues in writing. In view of the concerns expressed, the Board reconsidered its decision on the format of the hearing and, in view of the opposition to conducting the hearing partly in writing, decided that the application would be more expeditiously dealt with by way of an oral

proceeding on all matters. Accordingly, the Board issued Hearing Order RH-3-89 on 5 October 1989 (see Appendix VI), which set down TCPL’s application for hearing commencing 27 November 1989 and prescribed the directions on procedure.

The hearing pursuant to Order RH-3-89 commenced on 27 November 1989. The hearing of the evidence continued for nine days and concluded on 7 December 1989, at which time the hearing was adjourned to be reconvened on 13 December 1989 for final argument. The final argument finished on 14 December 1989.

Following the conclusion of the hearing, the Board decided to direct TCPL to charge its tolls then in effect on an interim basis effective 1 January 1990. By its letter dated 8 January 1990 (see Appendix V), the Board also authorized TCPL to charge tolls for firm and interruptible service from the St. Clair receipt point to the Niagara Falls delivery point on an interim basis, based on the level of tolls then in effect, pending the Board’s final decision on TCPL’s toll application.

To avoid having TCPL bill its customers the tolls authorized by the previously discussed interim orders, the Board issued its decisions on TCPL’s toll application on 5 February 1990 and indicated that its reasons for those decisions would follow. This document now sets out the reasons for those decisions.

After releasing its decisions on this application on 5 February 1990, it came to the Board’s attention that the tolls included in the appendix to Order TG-1-90 contained a minor computational error. Accordingly, on 7 February 1990 a revised Appendix I to Order TG-1-90 was issued (see Appendix II). This revised appendix includes the tolls that TCPL is authorized to charge under these Reasons for Decision and Order TG-1-90.

Revenue Requirement for 1990

The revenue requirement authorized by the Board for the 1990 test year is \$934,273,306. A summary of this approved revenue requirement together with the Board's adjustments is shown in Table 2-1.

In addition, the functional distribution and classification of the approved revenue requirement is set out in Appendix III to these Reasons for Decision.

Table 2-1

Transportation Revenue Requirement for the 1990 Test Year (\$millions)

	Application ¹	NEB Adjustments	Authorized by NEB
Transmission by Others	196.2	(0.9)	195.3
Operation and Maintenance	173.0	(1.6)	171.4
Depreciation	120.3	-	120.3
Municipal and Other Taxes	50.1	-	50.1
Income Taxes	81.7	(9.3)	72.4
Regulatory Deferrals and Amortizations	(1.2)	-	(1.2)
Foreign Exchange Costs	(0.6)	-	(0.6)
Other Operating Income	(0.6)	-	(0.6)
Return on Rate Base	<u>374.9</u>	<u>(9.4)</u>	<u>365.5</u>
Transportation Revenue Requirement	993.8	(21.2)	972.6
Miscellaneous Revenue	<u>(39.1)</u>	<u>0.7</u>	<u>(38.4)</u>
Total Transportation Revenue Requirement	<u>954.7</u>	<u>(20.5)</u>	<u>934.2</u>

¹ Application as updated by Exhibit B-61.

Rate Base and Depreciation

The Board's adjustments to rate base for the 1990 test year are summarized in Table 3-1. The details of the adjustments are explained in the sections following the table.

3.1 Gross Plant

3.1.1 Transmission Plant in Service Deferral Account

In the application, transmission plant additions for 1989 and the 1990 test year were forecast as \$1,024,745,065. These applied-for additions repre-

sented an increase of 43 percent over the net transmission plant in service of \$2,393,350,842 as at 31 December 1988.

During cross-examination of the rate base panel, a TCPL witness explained that the capital projects for a particular year are planned during the first and second quarters of the preceding year. At this stage, the cost estimates are based on preliminary engineering and internal cost data based on experience with similar projects. Once the final design and the detailed project description are complete, the bidding takes place, and if the tender results in

Table 3-1

Rate Base for the 1990 Test Year (\$millions)

	Application ¹	NEB Adjustments	Authorized by NEB
Utility Investment:			
Gross Plant	4,275.9	(0.1)	4,275.8
Accumulated Depreciation	<u>(1,265.8)</u>	<u>-</u>	<u>(1,265.8)</u>
Net Plant	3,010.1	(0.1)	3,010.0
Contributions in Aid of Construction	<u>(0.8)</u>	<u>-</u>	<u>(0.8)</u>
Total Plant	3,009.3	(0.1)	3,009.2
Working Capital	76.3	(0.1)	76.2
Deferred Costs:			
Average Accumulated Deferred			
Income Taxes	(75.9)	-	(75.9)
Miscellaneous Deferred Items	15.5	-	15.5
Operating and Debt Service Deferral	(1.9)	-	(1.9)
Other Deferred Items	<u>9.7</u>	<u>-</u>	<u>9.7</u>
Total Rate Base	<u>3,033.0</u>	<u>(0.2)</u>	<u>3,032.8</u>

¹ Application as updated by Exhibit B-61.

a contract price different from the estimate, the capital budget, for a particular project, is revised.

In most cases, projects are awarded to the lowest bidder. Contracts are structured as two component contracts, containing a fixed part for the main pipelaying operation (\$/metre) and a variable component whereby the contractor is paid on a unit basis for such tasks as excavation of rock, haulage of material and sand padding. In order to forecast project costs, TCPL estimates the quantities that are likely to be required to complete a project, costs the quantities using the price per unit submitted by the contractor in its bid, and totals the costs of all components to forecast the total project cost. Although the price per unit is fixed by contract, the total project cost could vary from the forecast depending on the circumstances encountered in the performance of the variable tasks. The availability of contractors, their competitiveness and the availability of material also contribute to the difficulty in accurately estimating project costs.

The difficulty in accurately estimating project costs and completion dates was evident from the record in the hearing. In comparing the 1989 actual construction costs with those forecast by TCPL in the RH-1-88 proceeding, many cost and in-service variances were identified.

Notwithstanding these difficulties and variances, in argument, TCPL characterized its overall estimates of capital costs as being very accurate noting that the actual costs of the 1989 major facilities were only 1.5 percent higher than the cost estimate filed with the Board, after allowing for escalation to 1989 dollars and considering subsequent Board-approved changes.

Various methods for implementing an adjustment mechanism based on historical experience between forecasted and actual plant in service were addressed. TCPL opposed adjustments of any kind because it is regulated on a prospective test-year basis. In addition, it submitted that to make an adjustment based on a comparison of actual results with prior forecasts is not appropriate, because TCPL's accuracy in projecting net plant in service was 99.87 percent for the nine months ending 30 September 1989. TCPL further submitted that, in the past, it had unsuccessfully sought a deferral account with regard to major capital additions.

The Canadian Petroleum Association ("CPA") was concerned that TCPL receives a return on rate base that does not exist because, historically, TCPL has spent less on capital additions than it has estimated in its toll applications. CPA noted that TCPL's evidence was that, over the test years ending 31 December 1987 and 31 July 1986, and for the first nine months of 1989, the actual rate base was 99.75 percent of the amount approved in the toll decisions. CPA submitted that the Board should subject TCPL's rate base to the same type of adjustment that was applied to Westcoast Energy Inc. ("Westcoast") in RH-2-87.¹ CPA submitted that the circumstances of TCPL are very similar to those which caused the Board to make an adjustment in the Westcoast case. Accordingly, it would be appropriate to apply a similar type of adjustment to TCPL's plant in service. The applicable adjustment factor in CPA's submission should be 0.25 percent. CPA also submitted that a second adjustment should be made to plant in service to reduce the impact of timing differences between forecast and actual in-service dates. The method for implementing this latter adjustment was not discussed.

The Independent Petroleum Association of Canada ("IPAC") and the Industrial Gas Users Association ("IGUA") supported the CPA argument for the introduction of an adjustment procedure for TCPL's plant in service.

The Minister of Energy for Ontario ("Ontario") submitted that the Board should defer 10 percent of the monthly projected Gas Plant in Service for a period of two months. The method for implementing this type of adjustment was also not discussed.

Views of the Board

The Board notes that, during the 1990 test year, TCPL will incur large capital expenditures to increase its system capacity. The transmission plant additions for 1989 and 1990 are forecasted to be \$1.025 billion, which is an increase of

1 In the Westcoast proceeding, the evidence showed that, for the previous five years, the average amount of actual plant in service was 0.16 percent less than forecast. The Board directed Westcoast to adjust the forecast of plant in service by that percentage for the test year and in years thereafter to adjust the forecast using an average of the previous five years' variance.

43 percent over net transmission plant in service of \$2.4 billion as at 31 December 1988. In addition, of the \$593 million of facilities approved pursuant to GH-1-89, \$390 million remains to be included in plant in service after the end of the 1990 test year. Further, the Board notes that TCPL's facilities application, to be heard pursuant to Order GH-5-89, calls for a further expansion of \$2.6 billion.

In view of additions of this magnitude, the Board is concerned that a small variance between estimated and actual capital expenditures would result in a substantial difference to net transmission plant in service. Although TCPL's overall forecast of capital costs has been close to actual in recent years, the large number of variances on a project-by-project basis are of concern. TCPL's evidence shows that it is extremely difficult to forecast project costs and the timing of in-service dates accurately. The magnitude of the additions approved and proposed will, undoubtedly, add to this difficulty.

In light of the abnormally large anticipated additions to TCPL's rate base, the Board is not persuaded that, in TCPL's circumstances, an adjustment mechanism similar to that used for Westcoast's forecast plant in service would be appropriate. The experience of recent years may bear little relation to the test year and future years in view of these anticipated additions.

The proposals by CPA and Ontario to adjust forecast in-service dates to reflect possible delays were raised only in final argument. As a result, the proposals were not adequately explained or tested in evidence and the Board is not persuaded as to the merits of these proposals.

To address the concerns about the potential for significant variances between forecast and actual capital costs and in-service dates, the Board considers a deferral account appropriate so that variances can be recorded and examined in future proceedings.

Decision

The Board directs TCPL to record in a deferral account the capital-related cost of service variances that result from differences between actual and forecast transmission plant in service account balances.

The dollar amount to be recorded in the deferral account shall be determined monthly for each capital-related cost of service component. Further, carrying charges equal to one-twelfth of the approved annual rate of return on rate base, calculated on the average of the beginning and ending monthly balances, are to be recorded in the deferral account.

3.1.2 Section 58 Applications

CPA proposed that TCPL provide section 58 applications filed with the Board, to interested parties who have indicated that they want to receive them. The parties would have an opportunity to comment, on a timely basis, and TCPL would have an opportunity to respond.

CPA submitted that parties whose rights would be affected by a section 58 application have a right to be heard and, in order to be heard, they must be aware of the applications being made. In addition, CPA submitted that it is reasonable for the Board to exercise its discretion by requiring TCPL to serve all such applications at the time of filing upon those intervenors who request them, and by giving the intervenors the right to be heard through written comments.

IPAC submitted that it is prepared to work with TCPL to resolve the problem of the distribution of section 58 applications and surveillance reports. But, failing an adequate settlement amongst the parties, it would support CPA's comments.

The Consumers' Gas Company Ltd. ("Consumers" or "Consumers' Gas") proposed that TCPL provide those section 58 applications which are with respect to facilities that would either be required to serve new shippers, or for volume increases for existing shippers. Alternatively, Consumers' Gas proposed that the Board should direct TCPL to serve interested parties with a notice of all section 58 applications of this type. Having received a notice, interested parties would be entitled, upon request, to receive the application and would be provided an opportunity to comment.

TCPL stated that it is not prepared to serve all its section 58 applications upon interested parties who wish to receive them, but agreed to make an effort to resolve this matter with the parties who raised it outside of the hearing process. TCPL was concerned that circulation of all section 58 applica-

tions to interested parties could result in undue regulatory delay while parties comment and are served with reply. It further noted that, the majority of the facilities in section 58 applications are related to TCPL's objective of providing safe, reliable and efficient service and that the applications are thoroughly reviewed internally at TCPL and by the Board.

Views of the Board

The Board understands the desire of interested parties to be better informed with respect to matters that may arise from section 58 applications and is of the view that interested parties should receive regular notice of these applications. However, the Board does not believe that parties should have an automatic right to comment on all section 58 applications. This is particularly so for those section 58 applications, the purpose of which is to maintain pipeline integrity or ensure safety. The Board shares TCPL's concerns that, if TCPL has to serve all section 58 applications, in their entirety, on interested parties, and if time is then allowed for comment, this could result in undue delays in the construction of facilities required to provide safe, reliable and efficient service. Accordingly, the Board would expect parties to restrict their requests to obtain and to comment on only those section 58 applications involving new capacity or services.

The Board is of the view that those interested parties who so request should be provided a summary of section 58 applications so that parties wishing to examine a particular application may request a copy from the company. Interested parties who wish to comment on a section 58 application should indicate their interest to the Board and request such an opportunity. The question of whether parties should be provided an opportunity to comment on a particular section 58 application will be decided by the Board on a case-by-case basis.

Decision

At the time TCPL files a section 58 application with the Board, it shall serve upon those parties who so request a summary of the application setting out a brief description and the purpose of the proposed facilities. Interested parties wishing to examine a particular section 58 application may then request a copy from TCPL.

3.1.3 Allocation of General Plant Between Utility and Non-Utility

TCPL allocated net plant of \$2,538,155 to Non-Regulated Office and \$142,291 to Non-Regulated Aviation. The allocation was made on the basis of salaries allocated between utility and non-utility activities. TCPL believes that these procedures are proper and serve to allocate costs fairly between regulated and non-regulated activities. However, in recognizing the concerns of intervenors in relation to the broader question of cost allocation (see section 5.2.2.8), TCPL stated that it will review its allocation procedures in anticipation of leading evidence thereon at its next tolls proceeding.

Views of the Board

The Board is of the view that it is appropriate to review allocation procedures from time to time to ensure that the allocation of costs between activities appropriately reflects the use of resources. As TCPL undertook to review the allocation of costs between regulated and non-regulated activities, it would also be appropriate to review the method used to allocate general plant.

Decision

TCPL is directed to address, in the cost allocation review it has undertaken to perform, the appropriateness of the procedures used to allocate general plant between utility and non-utility activities, and to assess alternatives to the procedures currently in use (see section 5.2.2.8).

3.1.4 Forecast of Test-Year AFUDC

Decision

The calculation of the allowance for funds used during construction ("AFUDC") related to capital additions for the 1990 test year has been adjusted to reflect the approved rate of return on rate base (see section 4.6). The Board has reduced the test-year AFUDC by \$90,000 and the accumulated depreciation by \$1,000.

3.2 Working Capital

TCPL estimated its working capital for the 1990 test year to be \$76,306,776. The Board's adjustments to working capital are shown in Table 3-2 and explained in section 3.2.1.

3.2.1 Cash Working Capital

TCPL requested a cash working capital allowance equal to one-twelfth of operation and maintenance expenses net of toll hearing expenses and non-cash items. In support of its request TCPL submitted a lead-lag study. The requested allowance of one-twelfth of net operation and maintenance expenses is unchanged from the level approved in the Board's RH-1-88 Phase II TCPL Reasons for Decision.

Decision

The Board has reduced the cash working capital allowance by \$132,625 as a result of the reduction in transmission salaries (see section 5.2.1) and the adjustments to departmental and general expense (see section 5.2.2.7). The details of the adjustment are shown in Table 3-2.

Table 3-2

NEB Adjustments to Cash Working Capital Allowance for the 1990 Test Year

Net Operation and Maintenance	
Expenses (per TCPL)	\$162,371,678
Reduction of Salaries and Benefits	(1,019,588)
Correction of Departmental Expense	(591,908)
Correction of General Expense	<u>20,000</u>
Net Operation and Maintenance	
Expenses (per NEB)	<u>\$160,780,182</u>
1/12 Operation and Maintenance (per NEB)	13,398,349
1/12 Operation and Maintenance (per TCPL)	<u>13,530,973</u>
NEB Adjustment to Cash	
Working Capital	<u>(\$132,625)</u>

3.2.2 Valuation of Line Pack

TCPL valued the line pack included in rate base at \$1.90 per gigajoule ("GJ"). No evidence was led supporting a value for line pack, company-use gas or compressor fuel, other than the amount proposed by TCPL of \$1.90/GJ. The total value of line pack included in rate base for the 1990 test year is \$27,831,222.

IGUA argued, without submitting any specific evidence, that the price used by TCPL to value line pack, company-use gas and compressor fuel is too high. It submitted that TCPL should be directed to seek information from shippers, which it would keep confidential, to get a more accurate valuation of line pack, company-use gas and compressor fuel.

Decision

In view of the Board's Decision in RH-1-88 Phase II to hear, among other things, evidence at the next tolls hearing after 1989 on the appropriateness of valuing line pack at the average price of system gas at the Alberta border, the Board accepts, for 1990, the \$1.90/GJ proposed by TCPL for the valuation of line pack.

3.3 Depreciation Expense

TCPL included \$120,340,777 of depreciation expense in the revenue requirement for the 1990 test year.

Decision

The Board has reduced depreciation expense by \$2,000 to reflect the adjustment to the AFUDC rate (see section 4.6). Accordingly, the approved depreciation expense is \$120,338,777.

TCPL applied for a rate of return on common equity of 14.25% for the 1990 test year, on a deemed common equity component of 30%. Details of the applied-for capital structure and requested rates of return are shown in Table 4-1 and are discussed in sections 4.1 to 4.5 of this chapter.

4.1 Funded Debt

Funded debt represents TCPL's average amount of utility debt capital that is projected to be outstanding during the test year.

TCPL applied for a funded debt cost rate of 12.38%. This rate was determined using a methodology that was consistent with that of prior years, with one exception. Unlike past cases, TCPL's applied-for funded debt cost rate reflected its estimate of the test-year amortization of issuance expenses related to the debt issues which the company expected to place in late 1989 and throughout 1990. TCPL estimated total issuance costs of \$6 million for these debt issues, whose

gross proceeds were expected to total \$550 million. The applied-for cost rate reflected the inclusion of the test-year amortization of issuance costs related to these issues, some \$236,000.

TCPL acknowledged that it had not reflected such an estimate in the funded debt rate in past proceedings; however, the company viewed this as an oversight on its part. A company witness noted that to the extent such issuance costs were incurred in past years, and ultimately not recovered from the utility tollpayers, TCPL's shareholders had to bear these costs. While not quantifying the cost to TCPL's shareholders, another company witness was of the view that the amount was significant. Further, TCPL held the view that the large amount of planned debt financing in the test year had increased the importance of recovering this expense.

No intervenor objected to the company's applied-for cost rate of funded debt.

Table 4-1

Applied-for Deemed Average Capital Structure and Rates of Return for the 1990 Test Year

	Amount (\$000)	Capital Structure (%)	Cost Rate (%)	Cost Component (%)
Debt - Funded	1,693,691	50.64	12.38	6.27
- Unfunded	<u>303,708</u>	<u>9.08</u>	10.875	<u>0.99</u>
Total Debt Capital	1,997,399	59.72		7.26
Preferred Share Capital	343,923	10.28	7.94	0.82
Common Equity	<u>1,003,424</u>	<u>30.00</u>	14.25	<u>4.28</u>
Total Capitalization	<u>3,344,746</u>	<u>100.00</u>		<u>12.36</u>

Views of the Board

TCPL is entitled to recover in tolls all legitimate costs related to its funded debt. The amortization of debt issuance expenses is an integral part of the calculation of the cost rate of funded debt. To the extent that such costs can be reasonably forecast they should be included in calculating the company's funded debt cost rate.

Overall, the Board finds TCPL's estimated issuance expenses related to the company's planned debt issues to be reasonable.

Decision

The Board approves the applied-for funded debt cost rate of 12.38% for the 1990 test year.

4.2 Unfunded Debt

The unfunded debt balance included in TCPL's total utility capitalization is determined by subtracting funded debt, preferred share capital and the deemed common equity component from total capitalization.

TCPL has applied for a cost rate of 10.875% on its forecast unfunded debt balance for the test year. This rate was based on a forecast long-term Government of Canada bond ("long-Canada") rate for the test year of 9.5% plus a corporate issuance spread of 1 3/8%. In forecasting a long-Canada rate of 9.5%, TCPL essentially relied on the evidence presented by its expert witness. The witness' estimate of the corporate issuance spread for TCPL was in the range of 125 to 135 basis points. In this regard, it was noted by TCPL that it had sold its recent Series Q debentures to an investment dealer at an issuance spread of 124 basis points, but that the investment dealer subsequently priced part of the debt issue at 133 basis points over the then-prevailing long-Canada rate. The company viewed the former issuance spread as being unlikely during the test year, given its expectation that the competition that has recently prevailed between investment dealers would not continue in 1990. Accordingly, the company opined that its estimate of the issuance spread for its planned debt issues was reasonable. In this vein, a witness for TCPL noted that undoubtedly there would be pressure brought to bear on the company's corporate issuance spread, given the significant debt financing that has occurred in

1989 and that is expected to continue into the test year.

The witness for CPA viewed 10.5% as being a reasonable estimate of the company's unfunded debt rate for 1990, based on an average long-Canada rate of 9.25% and a spread between long-Canada and corporate bond rates of 125 basis points. With regard to his long-Canada estimate, the witness stated that the current rate of 9.5% should serve as the upper limit in this analysis, given the views of investors involved in the financial futures market that long-term interest rates would decline somewhat from current levels over the next 18 months. In terms of the appropriate corporate issuance spread for the test year, CPA's witness was of the view that the company's historical experience formed a reasonable basis for estimating the expected differential between long-Canada and corporate debt rates.

The witness representing Ontario recommended an unfunded debt rate of 10.75% based on current trading yields. In relying on current yields, the witness reiterated his preference for focussing on actual trading yields as opposed to forecasts; however, he noted that in this instance current yields are in line with forecasts for the test year.

Views of the Board

The Board was persuaded by the evidence presented during the hearing that long-term interest rates are expected to be somewhat lower during the test year than the level forecast by the company's expert witness. However, the Board is cognizant of the significant amount of long-term debt financing expected to take place during the test year and, for this reason, finds merit in the corporate issuance spread suggested by the company. Accordingly, the Board considers the TCPL estimate of the corporate issuance spread to be reasonable.

Decision

The Board approves an unfunded debt cost rate of 10.75% for the 1990 test year.

4.3 Preferred Share Capital

Preferred share capital represents the average capital of preferred share issues associated with utility investments projected to be outstanding during the test year.

TCPL applied for a cost rate of 7.94% on its preferred share component of the capitalization. This is an average rate, reflecting issues already outstanding plus those anticipated during the test year. This rate was calculated in a manner consistent with past practice. No intervenor objected to the methodology employed by the company in calculating the applied-for rate.

The only issue raised during the hearing on this matter dealt with the appropriate rate at which to cost the company's anticipated test-year preferred share issues. In this regard, it was noted that the company's Series H and I preferred share issues are available for retraction during the test year. In its application, TCPL assumed that these shares will be retracted. If such a retraction were to take place, the company estimated that it could issue the requisite preferred shares at a rate of 8%.

Ontario's witness recommended a rate of 7.85% for the company's anticipated preferred share issues in 1990, relying on the recent trading yield of TCPL's preferred shares.

Views of the Board

With respect to the matter of forecast rates for TCPL's anticipated test-year preferred share issues, the Board was not persuaded by Ontario's submission that its recommended rate of 7.85% was more appropriate than the rate proposed by TCPL. Although the Board does not believe that TCPL put forward compelling evidence to support its forecast rate of 8%, on balance the Board finds this forecast rate to be acceptable. In making its decision, the Board was cognizant of the fact that use of Ontario's suggested dividend rate for 1990 preferred share issues would have relatively little impact on the company's test-year revenue requirement.

Decision

The Board approves the applied-for preferred share cost rate of 7.94% for the 1990 test year.

4.4 Common Equity Ratio

TCPL applied for a deemed common equity ratio of 30% in this proceeding. The company's witnesses stated that they continue to believe that a 30% deemed common equity ratio gives insufficient

weight to TCPL's longer-term risks and that a higher equity ratio would facilitate raising debt at lower rates. However, in view of the short time since the last proceeding, the company chose not to request a higher equity ratio at this time.

CPA's witness expressed the view that the applied-for 30% common equity ratio is within what he would consider to be the reasonable range for gas pipelines. However, he noted that if the company is able to raise funds during the 1990 test year on reasonable terms on the basis of its projected capital structure, it would be appropriate to consider reducing the utility deemed common equity ratio in subsequent test periods.

Ontario's witness recommended acceptance of the 30% deemed common equity ratio applied for, noting that the existing capital structure has removed the impingement of oil and gas operations on the credit rating of the utility operation and is clearly well accepted by both the equity and debt markets.

Views of the Board

The Board finds that TCPL's utility-related circumstances have not changed significantly since the time of the company's last toll hearing.

Decision

The Board approves the applied-for deemed common equity ratio of 30% for the 1990 test year.

4.5 Rate of Return on Common Equity

TCPL applied for a rate of return on common equity of 14.25%. The company found support for this rate from the evidence presented by its expert witnesses, whose analysis focussed on the results emanating from the comparable earnings, discounted cash flow ("DCF") and equity risk premium approaches.

As part of their comparable earnings analysis, TCPL's witnesses voiced the opinion that the current business cycle would most likely encompass the time period from 1983 to 1992. The earned returns for their sample of low-risk industrials for the period 1983 to 1988 averaged 15.1%. On the basis of independent projections, the witnesses then estimated that the rates of return

on equity for these companies during the period 1989 to 1991 would range from 14.55 to 14.75%. The witnesses viewed 1992 as a potential recession year and, for that reason, estimated the return level to be 12.3% for 1992. On the basis of these data, the average return for the entire business cycle was projected to be 14.7%.

The witnesses also examined the comparable earnings results for its sample companies assuming a recession were to occur in the near term. They concluded that the average returns for their sample companies under such a scenario would be 14.4%. The witnesses attached a probability of less than 50% to the likelihood of the current business cycle spanning the years 1983 to 1990. Having performed this analysis, the witnesses decided to give no weight to the 14.4% result, given their own view that a recession would most likely not occur until 1992.

The witnesses adjusted the basic comparable earnings result downwards from 14.7% to 14.4% to take into account the apparent risk differential between their low-risk industrial sample and a sample of high-grade electric/gas utilities. As support for the magnitude of the risk adjustment, TCPL noted that the other expert witnesses made similar risk adjustments in their analyses.

In spite of what they perceived to be severe limitations inherent in the approach, TCPL's witnesses applied the DCF technique to their low-risk industrial sample. Based on a dividend yield of 2.6% and a growth component of 10.2%, the basic cost of equity capital was 12.8%. An adjustment for the lower risk of utilities reduced this rate to a level of 12.5%. In order to provide for a market-to-book ratio of 1.15, the basic rate was increased to 13.7%. TCPL's witnesses gave this result 20% weight in arriving at their final rate of return recommendation.

TCPL's witnesses gave their risk premium results 30 % weight in reaching their final recommendation. They performed two risk premium studies, the first of which attempted to quantify the inverse relationship between interest rates and risk premiums. The witnesses' data, as measured for the period from 1974 to 1988, indicated that for every one percentage point decline in interest rates, the risk premium required for high-grade utility stocks increases by some 50 to 65 basis points. They initially concluded that the risk

premium, assuming a long-Canada rate of 9.5%, was in the range of 3.8 to 4.5 percentage points. However, the witnesses noted that this risk premium range might be overstated by 50 basis points due to the failure of this analysis to adequately reflect the longer-term decline in utility-related risk premiums. The resultant risk premium range of 3.3 to 4 percentage points was given the most weight by the witnesses in determining that the required risk premium for TCPL was approximately 3.5 to 3.75 percentage points. This risk premium range was confirmed by the witnesses' second risk premium study which focussed on the expected risk premium of the market as a whole as measured relative to the Toronto Stock Exchange ("TSE") 300 Index. Based on a market risk premium of 5 percentage points, and a downward adjustment of 25 to 30% for the lower risk of utilities relative to an average-risk stock, the resultant risk premium would be 3.5 to 3.75 percentage points. Such a risk premium, in conjunction with a long-Canada rate of 9.5%, resulted in a basic cost of equity of 13 to 13.25%. An adjustment to provide for a market-to-book ratio of 1.15 raised the cost to 14.3%.

CPA recommended 12 to 12.25% as a reasonable rate of return on equity. CPA relied on the evidence of its expert witness, who employed the DCF and equity risk premium approaches.

Consistent with past proceedings, CPA's witness performed his primary DCF analysis in relation to a sample of low-risk industrials. The witness' analysis led him to conclude that the required rate of return for investors in low-risk, non-utility stocks was currently in the range of 11 to 12%. The witness concluded that the required rate of return for TCPL was currently no more than 11.5%.

In his DCF analysis, CPA's witness found the dividend yield for his sample of non-utilities to be 2.6%. Using a technique whereby dividend growth rates are determined by reference to portfolios of stocks weighted according to both current and past stock prices, the witness estimated the growth component to be in the range of 8 3/8 to 9 3/8%. In this vein, the witness stated that the most recent five-year growth rates were the best guide as to the level of growth rates that could be considered achievable prospectively. He acknowledged that, because inflation is forecast to be somewhat higher than in the past five years, his growth rate estimates may be understated.

TCPL argued that the DCF approach utilized by CPA's witness resulted in growth rates that were systematically downward-biased, because the process of weighting portfolios using current stock prices gave less weight to those stocks which had achieved high growth rates in the past. The company estimated the downward bias to be from 80 basis points (if the witness' five-year growth data were considered) to as much as 140 to 180 basis points (eight-year and ten-year data). CPA's witness countered this argument by stating his belief that his primary non-utility sample contains proportionately more companies that have historically achieved above-average, rather than below-average, growth; accordingly, his growth rate estimates may overstate the rate of growth that investors can reasonably expect in the future. Conceptually, CPA's witness considered his approach to estimating growth rates to be the most reasonable. In this regard, he opined that it was appropriate to focus on current stock prices in order to establish the current stock portfolio of an investor, thus providing the best estimate of the growth rates that can be achieved prospectively.

CPA's witness employed a second market-based technique, namely the equity risk premium approach. In his initial analysis, he utilized a market risk premium of 5 percentage points. This premium was adjusted downwards by 50 percent to take into account his views as to the risk of TCPL relative to an average-risk stock. He then added this resultant risk premium of 2.5 percentage points to a long-Canada rate of 9 3/8%, concluding that the basic cost of equity is currently no more than 11 7/8%. Further analysis led him to conclude that the basic cost of equity, as measured by the risk premium approach, was more likely to be closer to 11.5%. In reaching this final conclusion, the witness relied on evidence that, in his view, convinced him that a market risk premium of 5 percentage points overstates the premium required prospectively by as much as one percentage point.

CPA's witness concluded that the basic cost of equity, as measured by the DCF and equity risk premium approaches, was 11.5%. He then increased this basic cost to his final recommended range of 12 to 12.25%, taking into account the recent behaviour and prospective volatility of interest rates and the need for a generous allowance to minimize the likelihood of dilution. In particular, he noted that long-term interest rates

had declined by about 100 basis points since his appearance earlier in 1989 at the RH-1-88 proceeding. In his view, it was not unreasonable to conclude that equity investors are currently requiring a much lower return as compared to early 1989; accordingly, he was comfortable that the downward adjustment in his final return recommendation relative to that of RH-1-88 was reasonable.

In recommending a rate of return on equity of 12.75 to 13%, Ontario relied on the evidence of its expert witness, who utilized the risk premium, DCF and comparable earnings approaches in his analysis.

In his risk premium analysis, Ontario's witness examined the historical risk premiums of different classes of stock investments on the TSE 300, as measured relative to long-Canada yields, for the 20-year period ending in 1988. His examination of the data led him to conclude that investors in stocks of average risk should expect a risk premium over long-Canadas of 3.25 to 3.75 percentage points. This risk premium, together with the current long-Canada rate of 9.45%, resulted in a risk premium result for an average-risk stock of 12.7 to 13.2%. Adjusting this range to reflect the lower risk of TCPL relative to an average stock resulted in a risk premium range of 12.25 to 12.75%.

Ontario's witness performed a DCF analysis relative to a sample of low-risk industrials, as well as a sample of utilities. With regard to the former, the witness adjusted his basic results for the lower risk of TCPL, concluding that the company's basic cost of equity was in the range of 11.36 to 11.87%. With respect to his utility sample, the basic cost of capital ranged from 10.69 to 11.64%; no risk adjustment was required in this case given the similarity in risk between TCPL's utility operations and those of the witness' utility sample.

As with the DCF approach, Ontario's witness performed a comparable earnings analysis relative to both low-risk industrial and utility samples. The witness' final results for these samples were 11.41 to 12.06% and 11.23 to 12.57%, respectively. While not placing great reliance on the results, the witness was of the opinion that they were of some value in assessing a fair return, given his downward adjustment to historical return levels to take into account what he viewed as the excessive current market-to-book ratios of his sample compa-

nies. The witness explained that, by adjusting for market-to-book ratios, he was attempting to determine the current cost of equity capital.

TCPL's witnesses argued that the comparable earnings approach is intended to be a proxy for the fairness standard, not a measure of the cost of capital. In their view, converting the basic results of the comparable earnings approach in the manner utilized by Ontario's witness is inconsistent with the standard that utilities should be allowed to earn returns on book equity that are commensurate with those earned by companies of similar risk.

Views of the Board

In reaching its final decision on this matter, the Board is cognizant that its approved rate of return on equity should necessarily satisfy the principles of fairness and of maintaining a company's financial integrity and ability to attract capital on reasonable terms. Accordingly, the Board has given some weight to each of the various cost estimation techniques presented during the proceeding. However, as in the case of RH-1-88 Phase II, the Board has placed greater emphasis on the results emanating from the risk premium approach.

The Board notes that there was little disagreement among the witnesses as to the appropriate long-Canada rate to be used in the context of the risk premium technique. As stated in section 4.2, the Board was persuaded by the evidence presented during the proceeding that long-term interest rates are expected to be somewhat lower during the test year than the level forecast by the company's expert witness. Discussion centred on the magnitude of the market risk premium and the appropriate adjustment to that premium to take into account the lower risk of TCPL relative to the market as a whole. The witnesses for both TCPL and CPA utilized a market risk premium of 5 percentage points as the point of departure in their respective analyses. However, CPA's witness stated that such a risk premium may overstate the required premium by as much as one percentage point. While such an overstatement may exist, the Board was not convinced by this witness' evidence as to the potential magnitude. The Board also was not persuaded by the evidence presented by the witnesses for either TCPL or CPA as to the magnitude of the risk adjustment that should be applied

to their estimates of the required market risk premium. In contrast, the point of departure for Ontario's witness was a risk premium range of 3.25 to 3.75 percentage points. The Board found the evidence as to how the witness arrived at this range of risk premium values to be somewhat unclear.

Witnesses for TCPL and Ontario employed comparable earnings techniques in their respective analyses. The typical comparable earnings approach, as employed by TCPL's witnesses, has merit when viewed from the standpoint of satisfying the standard of fairness, i.e. that utilities should be permitted to earn returns on book equity commensurate with those earned by competitive firms of comparable risk. However, there may be situations where some adjustment to basic comparable earnings data is required for considerations relating to, among other things:

- (i) the risk differential between the company in question and a selected group of low-risk industrials;
- (ii) the potential impact on book returns of past high and volatile levels of inflation; and,
- (iii) the potential that a low-risk industrial sample may include companies which have earned excessive monopolistic returns in prior periods.

The Board believes that the basic results observed in this case require adjustment for the first two factors. The Board recognizes that TCPL's witnesses made a downward adjustment to their basic results to reflect the lower risk of utilities relative to a sample of low-risk industrials. The Board agrees that such an adjustment is required, but was not convinced as to the reasonableness of the magnitude of the adjustment made by these witnesses. In this regard, the Board is aware of the attempt made by the company's witnesses to quantify the amount of the requisite risk adjustment; the Board was not convinced that their approach provided a reliable measure as to the size of the downward risk adjustment. In this case, the Board found no evidence to suggest that an adjustment to account for excessive monopolistic returns was necessary.

In his comparable earnings approach, Ontario's witness adjusted historical return levels downwards in an attempt to measure the current cost of

equity capital as determined in the marketplace. While recognizing that a downward adjustment to the basic data would be required if one were attempting to measure the current cost of equity capital, the Board was not convinced as to the magnitude of the witness' adjustment. While market-to-book ratios may provide some evidence as to the need for a downward adjustment, sole reliance on this one measure for determining the size of the adjustment calls into question the reliability of the results. The Board also notes that the witness applied a comparable earnings approach, as well as the DCF technique, to a sample of utilities. The Board placed little weight on these results in reaching its decision in this matter, keeping in mind the problems inherent in examining data for other utilities.

With respect to the DCF approach, the Board notes that the dividend yields included in the analyses of TCPL's and CPA's witnesses are identical. TCPL's witnesses stated that little reliance should be placed on the somewhat lower yield component utilized by Ontario's witness, given that it was determined on a spot basis. Having said this, the majority of the attention in relation to this approach focussed on the growth rate estimates employed by CPA's witness. The Board notes that the growth rate implicit in this witness' DCF analysis was lower than that of the other witnesses present at the hearing. The Board is concerned that the growth rate estimates utilized by CPA's estimate may be downward-biased, as was suggested by the company's witnesses. However, the Board was not persuaded by the evidence presented that these growth rates were understated to the extent suggested by TCPL's witnesses. Further, the Board is not convinced that the non-utility sample of CPA's witness contains proportionately more companies that have historically achieved above-average, rather than below-average, growth.

In reaching its decision on this matter, the Board relied heavily on the results of the cost estimation techniques employed by the expert witnesses. On the basis of these results, the Board finds that a downward adjustment to the currently-approved rate of return on equity is warranted. The Board also gave some recognition to the possibility of a recession occurring prior to the time suggested by the company's witnesses. Accordingly, the Board finds that TCPL's comparable earnings and DCF

results, which gave no weight to the possibility of an early recession, are overstated.

Decision

The Board finds that a rate of return on common equity of 13.25% is fair and reasonable for the 1990 test year.

4.6 Rate of Return on Rate Base

Decision

The foregoing result in a rate of return on rate base of 12.05% for the 1990 test year. The approved capital structure and overall rate of return are shown in Table 4-2.

4.7 Income Taxes

4.7.1 Income Tax on Preferred Share Dividends

TCPL requested recovery of \$94,447 in its revenue requirement for income taxes resulting from the tax expense associated with preferred share dividends under Part VI.1 of the *Income Tax Act*. The legislation was designed to prevent the use of preferred shares as a means of raising after-tax financing and this objective is accomplished by imposing a recoverable tax on dividends paid on taxable preferred shares. TCPL must pay a 40% tax on its Series K, L and M taxable dividends and is allowed a deduction for tax purposes equivalent to nine-fourths of this tax. The tax saving thereon is less than the dividend tax paid resulting in a shortfall in TCPL's revenue requirement for income taxes.

Views of the Board

The income tax expense associated with these preferred share dividends is beyond the control of TCPL and therefore should be included in the company's revenue requirement.

Decision

The Board approves the inclusion of \$94,447 in TCPL's 1990 test-year revenue requirement for income taxes resulting from the tax expense associated with preferred share dividends under Part VI.1 of the *Income Tax Act*.

Table 4-2

**Approved Deemed Average Capital Structure
and Rates of Return for the 1990 Test Year**

	Amount (\$000)	Capital Structure (%)	Cost Rate (%)	Cost Component (%)
Debt - Funded	1,693,691	50.65	12.38	6.27
- Unfunded	<u>303,381</u>	<u>9.07</u>	10.75	<u>0.98</u>
Total Debt Capital	1,997,072	59.72		7.25
Preferred Share Capital	343,923	10.28	7.94	0.82
Common Equity	<u>1,003,283</u>	<u>30.00</u>	<u>13.25</u>	<u>3.98</u>
Total Capitalization	<u>3,344,278¹</u>	<u>100.00</u>		<u>12.05</u>

	(\$000)
1 Rate Base	3,032,819
Gas Plant Under Construction	<u>311,459</u>
Total Capitalization	<u>3,344,278</u>

4.7.2 Large Corporations Tax

TCPL calculated its taxable capital for purposes of determining the Large Corporations Tax ("LCT") at \$3,316 million for 1989 and \$3,936 million for 1990. The company made appropriate adjustments to reflect that the liability for this tax is effective only from 1 July 1989.

CPA maintained that an adjustment to taxable capital was required to provide for an adequate allocation of the LCT to the non-utility operations of TCPL. CPA made specific reference to certain schedules filed by TCPL with respect to which the company's witness acknowledged differences of \$130.7 million for 1989 and \$122.8 million for 1990 between the utility capitalization and non-consolidated taxable capital of TCPL. The company's witness assumed that non-utility investments were all made through shares and advances to subsidiary corporations that were deducted out in determining taxable capital for LCT purposes. TCPL agreed that the taxable capital amounts favoured by CPA were reasonable but deficient of "Dividends Payable" which the LCT includes in a company's capitalization.

Views of the Board

In the Board's view, a portion of the LCT should be allocated to the non-utility operations of TCPL. Accordingly, the Board finds that, as suggested by CPA, an adjustment to the taxable capital amount used by TCPL in its LCT calculation is required. The Board believes, as proposed by CPA and agreed to by TCPL, that the utility capitalization amounts that should be used in the LCT calculation are those found in tables to a company witness' evidence. Further, the Board agrees with TCPL that these capitalization amounts should be adjusted to reflect dividends payable.

Decision

The Board has decided that a portion of TCPL's LCT should be allocated to non-utility. Accordingly, the Board has reduced TCPL's LCT estimate for 1989 by \$80,000 and for 1990 by \$147,000. These adjustments reflect the differences between the applied-for amounts for 1989 and 1990 of \$2,165,000 and \$6,871,000 respectively and the amounts of \$2,085,000 and \$6,724,000 approved by the Board. The derivation of the approved amounts is shown in Table 4-3.

Table 4-3

**Approved Taxable Capital and Large Corporations Tax for
1989 and 1990**
(\$000)

	1989	1990
Taxable Capital per TCPL	3,316,161	3,936,489
Less: Allocation to Non-utility	130,717	122,832
Plus: Dividends Payable	<u>38,571</u>	<u>38,404</u>
Taxable Capital per NEB	3,224,015	3,852,061
Less: Basic Capital Deduction	<u>10,000</u>	<u>10,000</u>
	3,214,015	3,842,061
Tax thereon at 0.175%	5,625	<u>6,724</u>
(1/2 of 5,625 for 1989)	2,813	
Less: Applicable Surtax	<u>728</u>	
	<u>2,085</u>	

4.7.3 Carrying Charges on Income Tax Reassessment Deferral Account

In accordance with paragraphs 5 and 6 of Order TG-5-83, TCPL continued to record carrying charges at the authorized rate of return on rate base on its Income Tax Reassessment deferral account. Settlement with Revenue Canada has not yet been effected.

The company stated that it had not previously imputed an interest component on carrying charges in its income tax requirement for toll purposes. TCPL's witness emphasized that historically the company has neither included the deferred debits nor the deferred credits as part of the toll application, but agreed with the CPA's assertion that interest on the deferral account balances, in a similar manner to interest on AFUDC, would be a deduction in the tax calculation. TCPL argued that allowance of an interest deduction for carrying charges in its income tax requirement for toll purposes would result in increased tax costs when settlement with Revenue Canada is concluded and the total carrying charge, including the interest portion, is collected in tolls.

CPA contended that the interest portion of the carrying charges on the Income Tax Reassessment deferral account should be deducted in the calculation of TCPL's utility income tax requirement, giving tollpayers the benefit of the deduction. Evidence adduced by CPA revealed that, upon settlement of the appeal in TCPL's favour, the interest that the government would pay over the time period in question (1985-1989), averaging around 12%, would be less than the carrying charges which had been recorded by the company.

Views of the Board

The Board was not persuaded by the rationale provided by TCPL for not deducting the interest portion of the carrying charges on the Income Tax Reassessment deferral account in the calculation of TCPL's utility income tax requirement. The Board is of the view that, for the 1990 test year and until the appeal is settled with Revenue Canada, the tollpayers should get the benefit of the deduction associated with the interest expense portion of the carrying charges on the Income Tax Reassessment deferral account.

Decision

The Board has decided that the interest expense portion of the estimated 1990 carrying charges on the Income Tax Reassessment deferral account should be deducted in the calculation of the utility income tax requirement. Accordingly, the Board has reduced the 1990 revenue requirement by \$1,928,195 to reflect a reduction in taxable income of \$2,528,617.

4.7.4 Flow-Through Tax Calculation

Decision

The Board has adjusted the 1990 flow-through income tax provision from \$81,722,000 to \$72,468,405, a reduction of \$9,253,595, to reflect the decisions included in this report (see Table 4-4).

Table 4-4

Approved Utility Income Tax Allowance for the 1990 Test Year (\$000)

Return Related to Equity	145,575 ¹
Add:	
Depreciation	120,339
Large Corporations Tax - 1990	6,724 ²
Amortization of Large Corporations Tax - 1989	2,085 ²
Preferred Share Dividend Tax	94
Non-Allowed Amortization of Debt	
Discount & Expense and Foreign	
Exchange Losses	(3,391)
Non-Allowed Expenses	2,053
Deduct:	
Capital Cost Allowance	161,953
Benefits Capitalized	3,074
Eligible Capital Expenses	47
Interest AFUDC	20,982 ³
Issue Costs	1,821
Interest Expense Portion of Carrying Charges on Income Tax Reassessment Deferral Account	<u>2,529⁴</u>
Taxable Income, as Adjusted	<u>83,073</u>
Taxes at $\frac{0.43264}{1 - 0.43264} \times \$83,073$	63,347
Add: Ontario Capital Cost Allowance Difference	218
Recovery of Large Corporations Tax	8,809
Income Tax on Preferred Share Dividends	<u>94</u>
Utility Income Tax Allowance, as Adjusted	<u>72,468</u>

- 1 Equals the allowed rate base multiplied by the sum of the allowed weighted average costs of preferred and common equity (see Table 4-2).
- 2 Revised to reflect the Board's decision in section 4.7.2.
- 3 Revised to reflect the Board's decision in section 4.6.
- 4 Included to reflect the Board's decision in section 4.7.3.

The Board's adjustments to operating costs for the 1990 test year are summarized in Table 5-1.

5.1 Transmission by Others

5.1.1 Shipper-Provided Fuel on Union Gas Limited

TCPL requested the Board's approval to exercise a shipper-provided fuel option on the Union Gas Limited ("Union") system under Union's M12 transportation service. Union offered this option on its system pursuant to the Ontario Energy Board's Reasons for Decisions in E.B.R.O. 456.

TCPL proposed to supply M12 fuel to Union by requiring shippers on the TCPL system, who have elected to provide their own fuel, to also provide their allocated share of the fuel required for the M12 transportation service. In order to accomplish this, TCPL requested that the Board approve, effective

1 January 1990, the inclusion of TCPL's M12 fuel requirements in its own monthly fuel ratios and that such approval be given in sufficient time to enable TCPL to notify Union of its election prior to 1 January 1990. TCPL advised that, should the Board approve the shipper-provided fuel option on Union, it should also reduce the non-synthetic gas commodity cost from \$920,873 to zero to prevent an over-recovery of the fuel costs.

TCPL believes that its shippers perceive that there is a benefit to them in providing their own fuel on its system. It also demonstrated that the impact on TCPL's fuel ratios of exercising the shipper-provided fuel option on Union would not exceed four one-hundredths of one percent.

Views of the Board

In the Board's view, TCPL's proposal is reasonable. The Board considers it appropriate to allow TCPL's shippers the option of providing their own

Table 5-1

Operating Costs for the 1990 Test Year (\$000)

	Application ¹	NEB Adjustments	Authorized by NEB
Transmission by Others	196.2	(0.9)	195.3
Operation and Maintenance	173.0	(1.6)	171.4
Municipal and Other Taxes	50.1	-	50.1
Regulatory Deferrals and Amortizations	(1.2)	-	(1.2)
Foreign Exchange Costs	(0.6)	-	(0.6)
Other Operating Income	<u>(0.6)</u>	<u>-</u>	<u>(0.6)</u>
Total Operating Costs	<u>416.9</u>	<u>(2.5)</u>	<u>414.4</u>

¹ Application as updated by Exhibit B-61

fuel for TCPL's M12 transportation services on Union, as it is consistent with a market-responsive pricing system and will enable TCPL's shippers to benefit from lower transportation costs.

Decision

The Board approved, by letter dated 21 December 1989, the inclusion of TCPL's M12 fuel requirements in the determination of its own monthly fuel ratios. Accordingly, the Board has reduced the Union non-synthetic natural gas commodity cost included in Transmission by Others by \$920,873 to reflect this decision.

5.1.2 Shipper-Provided Fuel on Great Lakes Gas Transmission Company

At the present time, the fuel which is consumed on the Great Lakes Gas Transmission Company ("Great Lakes") system is provided under three contracts, one of which is between TCPL and Great Lakes. The other two are between Western Gas Marketing Limited ("WGML") and Great Lakes.

Great Lakes has proposed in its open-access filing, which is currently pending before the Federal Energy Regulatory Commission ("FERC"), that shippers be permitted to provide their own fuel on the Great Lakes system. Therefore, it is felt that when Great Lakes accepts its open-access certificate, its shippers may be allowed to provide their own fuel. When this happens, Great Lakes' charges to TCPL for T-4 volumes will include a commodity rate, a demand rate and a fuel ratio.

IPAC stated in its evidence that at such time as Great Lakes goes open access it would be more appropriate to have TCPL include in its fuel ratio the volume of compressor fuel on Great Lakes. This would allow shippers on TCPL the opportunity to provide to TCPL their share of TCPL's fuel on Great Lakes.

TCPL stated that it saw three potential problems respecting TCPL exercising any shipper-provided fuel option that may be made available on Great Lakes as a result of Great Lakes' open-access filing:

- (i) The provision of fuel for TCPL's T-4 contract on Great Lakes under TCPL's fuel ratios on its system may be in violation of the Topgas covenants. With respect to this particular problem, however, TCPL indicated that it has

had discussions with Topgas regarding this matter and that there does not appear to be a problem at the present time.

- (ii) Great Lakes has customer-specific Purchase Gas Adjustment ("PGA") clauses. Under the TCPL PGA clause, TCPL currently owes Great Lakes approximately \$2 million. Great Lakes would be seeking to have the costs in this account paid up at about the same time as the shipper-provided fuel option was exercised.
- (iii) The movement of Great Lakes fuel gas on TCPL's system is made in part pursuant to contract No. 3 which is currently included in the allocation units upon which tolls are based. This contract would need to be removed from the allocation units. In addition, the allocation units related to contract Nos. 1 and 2 would need to be altered. In the event that a shipper-provided fuel option is made available on Great Lakes during 1990 and the contracted fuel volumes are removed from the allocation units, there would be an under-recovery by TCPL of its fixed costs allocated during the remainder of the year.

TCPL requested that the Board provide the following rulings as quickly as possible in order to allow TCPL to exercise any shipper-provided fuel option which may be offered on Great Lakes during the 1990 test year:

- (i) a specific interpretation respecting the applicability of the Great Lakes Rates deferral account to record the payment to Great Lakes of any outstanding PGA balance; and,
- (ii) a specific ruling as to the appropriateness of recording in the Demand Revenue deferral account any fixed costs allocated respecting contracts for fuel for the Great Lakes system.

The rulings requested by TCPL were supported by IPAC and Consumers' Gas. No intervenors were opposed to the rulings.

Views of the Board

The Board considers it appropriate to allow TCPL's shippers to provide their own fuel on Great Lakes as soon as the option is available as it will be consistent with a market-responsive pricing sys-

tem and will enable TCPL's shippers to benefit from lower transportation costs.

Decision

The Board confirms that, in the event that a shipper-provided fuel option becomes available on Great Lakes, (i) the Great Lakes Rates deferral account may be used to record the payment to Great Lakes of any outstanding PGA clause balance, and (ii) the Demand Revenue deferral account may be used to record any fixed costs allocated respecting contracts for fuel for the Great Lakes system.

5.1.3 Sale of Delivery Pressure

In its Reasons for Decision in GH-2-87, at Appendix II, the Board stated that:

"The Board has decided that any incremental costs incurred by TransCanada to guarantee the provision of delivery pressure in excess of 4 000 kilopascals (580 pounds per square inch gauge) at any delivery point on the TransCanada system shall be recovered through an incremental two-part delivery pressure toll to be collected from all shippers using that delivery point."

In its RH-1-88 Phase II Decision, the Board approved TCPL's delivery pressure tolls, which were designed in accordance with GH-2-87.

In TCPL's view, delivery pressure tolls were clearly to be collected from all shippers utilizing the affected delivery point, without any differentiation between types of service.

TCPL stated that when it commenced invoicing Union and Great Lakes for delivery pressure respecting M12 and T-4 volumes, respectively, its legal counsel concluded that TCPL should not be billing for delivery pressure for these volumes. This was a result of the wording in the Board's GH-2-87 and RH-1-88 Phase II Decisions that delivery pressure tolls were to be collected only from shippers with delivery points on the TCPL system.

The result is that the Board approved a gross revenue requirement for TCPL in the RH-1-88 Phase II Decision, approved a crediting to that revenue requirement of the T-4 and M12 delivery pressure revenues, but there was no method whereby TCPL would be able to recover those revenues.

Therefore, TCPL deferred 1989 fixed-cost revenue of approximately \$430,000 attendant on delivery pressure service under the Demand Revenue deferral account. In this proceeding TCPL requested Board approval to recover in the 1990 test year the amounts so deferred (see section 6.1).

For the 1990 test year TCPL proposed to charge all system users for delivery pressure respecting the Union M12 and the Great Lakes T-4 volumes by including these charges in the amount of \$897,698 in Transmission by Others.

In the event that the Board should disagree with TCPL's request to include these charges in Transmission by Others, TCPL proposed that, as an alternative, the Board should eliminate the M12 and T-4 volumes (but no dollars) from the delivery pressure toll calculation. This would have the effect of raising the level of the delivery pressure tolls to be recovered from all other shippers at the Emerson and Dawn delivery points.

Both Consumers' and Union endorsed TCPL's request to charge all system users for delivery pressure respecting the Union M12 and the Great Lakes T-4 volumes by including these charges in Transmission by Others. Consumers' stated that TCPL's proposal is superior to the alternative which would unduly drive up delivery pressure tolls at Emerson and Dawn. Union stated that the alternative approach would result in subsidization of those who receive the advantage of the service, but from whom TCPL cannot collect the charge, by those paying the delivery pressure charges.

No intervenors opposed TCPL's proposal to recover in the 1990 test year the 1989 fixed-cost revenues of \$430,000 deferred in the Demand Revenue deferral account (see section 6.1).

Views of the Board

The Board agrees that it is not appropriate to charge Union and Great Lakes for delivery pressure respecting M12 and T-4 volumes respectively, as Union and Great Lakes are not shippers. Since TCPL could be considered to act as a proxy in arranging transportation on Great Lakes and Union, it is appropriate that these pressure charges for the 1990 test year should be recovered from all system users by inclusion in Transmission by Others. For the same reason, it is appropriate to recover the 1989 fixed cost revenues in the 1990 test-year revenue requirement (see section 6.1).

Decision

The Board accepts the inclusion by TCPL in the 1990 test year of \$897,698 for transmission by others, in relation to the sale of delivery pressure respecting the Union M12 and the Great Lakes T-4 volumes. (The Board's Decision with respect to the 1989 fixed-cost revenues deferred in the Demand Revenue deferral account is set out in section 6.1.)

5.2 Operation and Maintenance

The Board's adjustments to operation and maintenance expenses are summarized in Table 5-2.

Table 5-2

NEB Adjustments to Operation and Maintenance Expenses for the 1990 Test Year (\$000)

Reduction of Salaries and Benefits	1,020
Correction of Departmental Expense	592
Correction of General Expenses	<u>(20)</u>
	1,592

5.2.1 Salaries

5.2.1.1 Permanent Transmission Employees

In 1988 TCPL had an average of 662 permanent transmission employees and 14 vacant positions, for a full staff complement of 676 positions. For 1989 TCPL estimated a full staff complement of 650 positions with 24 vacancies during that period. For 1990 TCPL forecasts a full staff complement of 650 positions with only 5 vacant positions. TCPL indicated that the decrease in permanent transmission employees from 1988 to 1989 was a result of the company's early retirement program and attrition.

TCPL's witnesses were cross-examined on many areas of the company's permanent transmission staff complement. In argument, it was Ontario's position that the estimated transmission vacancy rate for 1990 should be based on the average vacancy rate for 1988 and 1989. This would result in a vacancy of 19 positions.

Views of the Board

In the Board's view, the full transmission staff complement estimated by TCPL for 1990 was adequately supported. However, on the basis of the evidence presented, the Board finds that the vacancy estimate for 1990 should be based on the company's actual vacancy experience in the past four years. This results in an average vacancy of 14 positions.

Decision

The Board accepts TCPL's projected permanent transmission staff complement for the 1990 test year. However, the Board has decided to adjust TCPL's 1990 vacancy-rate estimate to reflect the company's average experience in the last four years of 2.2%. Accordingly, the Board has reduced the revenue requirement by \$343,147 to reflect an average vacancy rate for permanent transmission employees of 14 positions.

5.2.1.2 Permanent Transmission Salaries Capitalized

TCPL estimated that the amount of permanent transmission salaries capitalized for 1990 (\$4,759,587) will remain at approximately the 1989 level (\$4,734,630).

In argument, Ontario stated that since permanent transmission salaries were forecast to increase by 8.1 percent for 1990, the salary amount capitalized should increase by the same percentage. TCPL stated that since the 1990 construction program is very different from that carried out in 1989, there was no basis for Ontario's suggestion that the amount capitalized be increased. TCPL indicated that, for example, less inspection will be required in 1990, since most construction will be taking place on the prairies compared to the 1989 program when construction was mainly in northern Ontario.

Views of the Board

Without evidence or a witness to speak to Ontario's proposal, the Board finds it difficult to assess the merits of making the suggested adjustment. Moreover, the record does show that the 1990 construction program is sufficiently different from that carried out in 1989, thereby suggesting that an 8.1 percent increase in the transmission

salary amount capitalized, as suggested by Ontario, is not appropriate.

Decision

The Board accepts TCPL's explanation and allocation for regular transmission salaries capitalized and is not persuaded by Ontario's position that the amount capitalized should be increased by 8.1 percent.

5.2.1.3 Temporary Transmission Employees

TCPL had an average of 115 temporary employees during the 1988 base year. TCPL's projected requirements for the 1989 forecast year and 1990 test year were 160 and 185, respectively. TCPL indicated that these temporary employees are hired as construction inspectors and supervisors to supplement the employees already on staff. TCPL supported the increase by referring to an increase in construction activities.

However, as mentioned in section 5.2.1.2, TCPL had also indicated that the construction program for 1990 would require less inspection as compared to the 1989 construction program. Ontario was of the opinion that since TCPL indicated that it would require less inspection of construction for 1990 and since the 1989 temporary staff complement was apparently adequate, an adjustment in temporary staff requirement should be made.

Views of the Board

In view of the reduced level of inspection expected in 1990 associated with the Western construction program, the Board does not believe TCPL has provided satisfactory justification for the proposed increase in the temporary complement over the 1989 level.

Decision

The Board is not persuaded that TCPL requires a temporary transmission staff complement of 185 for 1990, and believes that a complement of 160, consistent with 1989, is more appropriate. Accordingly, the Board has reduced TCPL's revenue requirement by \$360,162 to reflect the disallowance of 25 positions. This adjustment is based on a forecast average temporary salary of \$37,226 and TCPL's evidence that 61.3 percent of salary costs of temporary transmission employees are to be capitalized.

5.2.1.4 Annual Rate of Increase

TCPL's estimate of salaries for 1990 provided for an annual rate increase of 5.8% and an additional 0.7% of the base salary level to cover progression and promotion increases. TCPL relied on the recommendations of its expert witness, who had surveyed estimated 1990 budget increases and the competitive position of TCPL's employees' 1988 salary levels, and concluded that TCPL's salaries were within the competitive range. In support of the recommended year-over-year salary increase of 5.8%, the witness relied on a forecast of the consumer price index ("CPI") of 5.2% for 1990 and noted that the Toronto area is experiencing an economic boom with full employment and a CPI at a full percentage point above the national average.

Ontario opposed the progression and promotion provision of 0.7% for 1990, which represented a substantial increase over the 1989 forecast year allowance. IPAC was of the opinion that the overall increase requested by TCPL, including the year-over-year increase, the progression and promotion provision, and the Management Incentive Program is well above the levels noted by TCPL's expert witness as being required for Calgary and well above the levels for those groups with which TCPL will have to compete to retain its employees.

Views of the Board

In light of the planned move by TCPL to Calgary and its lower cost of living relative to the inflated labour market of Toronto, an overall increase of 6.5% (5.8% general and 0.7% promotion and progression) appears excessive. Having regard to the requests of other pipeline companies, the Board finds an all-inclusive year-over-year salary adjustment of 5.5% for 1990 to be reasonable.

Decision

The Board does not accept the annual rate of increase proposed by TCPL. Rather, the Board has decided to approve a year-over-year increase of 5.5%, inclusive of general increases as well as increases for merit, promotion and progression.

As a result of this decision, the Board has reduced the applied-for transmission salaries by \$145,270. Further, the Board has reduced total departmental expenses to be allowed for inclusion in the 1990 revenue require-

ment, and to be used with respect to the departmental expense component of the Corporate Relocation deferral account, by \$137,322 (see section 7.3.3).

5.2.1.5 Management Incentive Program

In the current submission, the Management Incentive Program is estimated for the 1990 test year to represent 2.1 percent of base-year salaries or \$1,528,865. The proposed increase in the program for 1990 over that approved for 1989 is \$67,000, or 4.6 percent. During cross-examination TCPL reiterated its position that, in 1987, it had introduced the program by cutting the management salary ranges. TCPL also stated that it increases the base salaries plus the target levels of incentives annually to match competitive rates in the market.

Views of the Board

In RH-3-86 the Board approved an amount equal to 1.0 percent of base salaries for the Management Incentive Program. The Board notes that the program now represents 2.1 percent of base salaries. As a result, the Board is of the view that the continued appropriateness of the Management Incentive Program should be re-examined at the next TCPL tolls hearing.

Decision

The Board intends to examine, at the next TCPL tolls hearing, the continued appropriateness of including the cost of the Management Incentive Program in the revenue requirement in view of the general, merit, promotion and progression increases awarded by TCPL. For 1990, the Board will accept, in total, only the 1989 level, or \$1,461,490, for the Management Incentive Program. As a result of this decision, the transmission salaries included in the 1990 revenue requirement has been reduced by \$33,687, being 50 percent of the difference between the forecast 1989 and 1990 levels of this program.

The remaining \$33,687 relating to departmental salaries need not be taken out of the 1990 forecast revenue requirement in view of the Corporate Relocation deferral account which is based on the approved 1989 departmental and general expenses. However, the Board will not accept for recovery in a future period any amounts paid in 1990 for this program that are in excess of \$1,461,490.

5.2.2 Other Transmission, Departmental and General Expenses

5.2.2.1 Expenses of Employees Charged to Construction

During the hearing, Ontario prepared an exhibit comparing the amount of transmission expenses of employees charged to construction for 1988, 1989 and 1990. The exhibit showed that of the total amount of expenses of employees in 1988, approximately 13 percent was charged to construction. For 1989, the amount charged to construction as forecast by TCPL and as approved in RH-1-88 Phase II was approximately 1 percent of the total expenses of employees whereas TCPL's projected actual for 1989 as provided in this proceeding was approximately 24 percent. For 1990, TCPL provided a forecast of approximately 5 percent of expenses of employees being charged to construction.

Based on these data, Ontario argued that TCPL had understated its charges to construction for transmission expenses of employees for the 1990 test year and stated that the 1990 forecast shows a trend better suited to TCPL's RH-1-88 Phase II forecast, which Ontario described as very poor, than to the actual 1989 results. Therefore, Ontario submitted that the charge to construction for expenses of employees for 1990 should be increased to 24 percent, similar to that of the 1989 actual amount, of the total expense of approximately \$1.3 million, or \$322,700, and that the Board should disallow \$261,000 from TCPL's 1990 cost of service.

TCPL argued that it is incorrect to suggest that there should be some constant ratio year after year for expenses of employees charged to construction to total expenses of employees. Expenses of employees charged to construction will vary significantly from year to year and are strictly related to the construction program.

Views of the Board

The Board was not persuaded by Ontario's argument that it would be appropriate to disallow, from the current test year, costs for this item based on historical trends and ratios. The Board concurs with TCPL that the amount of expenses of employees that will be charged to construction in the test year is directly related to the test-year construction program and it need not bear any relationship

to the amount charged to construction in previous years.

Further, it is the Board's view that, when parties wish to advance proposals such as that advanced by Ontario in this case, prefiled evidence and a witness should be provided so that interested parties and the Board are able to test the merits of the proposal.

Decision

The Board finds the applied-for amount of transmission expenses of employees charged to construction to be reasonable.

5.2.2.2 Prime Mover Overhauls and Repairs

TCPL included an amount of \$16,974,140 in its 1990 revenue requirement for overhauls and repairs to a number of compressor units. This amount represented an increase of approximately \$3 million over the projected actual for the 1989 test year. Ontario argued that this increase was not well supported by TCPL's evidence and, furthermore, stated that it was particularly concerned with the estimate of \$4 million included for unplanned compressor work because TCPL did not adduce any clear evidence showing the cost of this item in previous years.

Ontario submitted that an allowance of \$15,549,473 for prime mover maintenance for 1990 was more reasonable than TCPL's forecast and that the difference of \$1,424,667 should be disallowed from TCPL's revenue requirement. Ontario's forecast was developed primarily by adjusting the 1989 projected actual for inflation.

TCPL argued that it had provided evidence on its prime mover maintenance costs in great detail, showing where its costs have been incurred in 1988 and 1989 and where they will occur in 1990 down to each specific compressor unit.

TCPL stated that the allowance of \$4 million for unexpected failures is based on a rolling average of costs for unexpected failures in recent years and it is higher in the test year than in recent years because of currently high throughput. TCPL submitted that it is therefore fully justified.

Views of the Board

The Board does not accept Ontario's method of adjusting the 1989 projected actual for inflation to ar-

rive at the forecast for 1990 in relation to prime mover overhauls and repairs. This is an oversimplified approach to forecasting and does not take into account the changes that occur from year to year in throughput levels and running times for compressors.

The Board does, however, share Ontario's concern with respect to the lack of evidence supporting the request for the allowance of \$4 million for unexpected failures. The Board recognizes the difficult nature of forecasting an amount for unexpected failures. However, in future tolls proceedings, the Board will require that TCPL provide more evidence supporting the amount applied for in relation to prime mover overhauls and repairs.

Rather than disallow an arbitrary amount from the revenue requirement for this item and risk the possible impairment of the safety and integrity of the system, the Board is of the view that it would be more appropriate to accept the applied-for amount for toll purposes and to establish a deferral account for any variance between this amount and the actual amount spent.

Decision

The Board approves for the 1990 test year the applied-for amount of \$16,974,140 in respect of maintenance expense for prime mover overhauls and repairs. As discussed in section 7.3.4, the Board has established a deferral account for variances between the actual and forecast costs of this category.

5.2.2.3 Mainline Pipe Maintenance

TCPL included an amount of \$6,837,000 in its 1990 revenue requirement for mainline pipe maintenance. This amount represented an increase of approximately \$3.8 million over the 1989 projected actual and an increase of approximately \$0.4 million over the 1988 actual.

Ontario argued that TCPL's forecast of its mainline pipe maintenance for 1990 is even more questionable and less professionally prepared than its forecast of prime mover overhauls and repairs. Ontario referred to an exhibit prepared by TCPL, filed near the end of the hearing, which showed significant revisions to the plans for hydrostatic retesting and minor pipe replacements for the 1990 test year. Ontario stated that it was surprised that these maintenance plans in such a core part of

TCPL's business are only finalized weeks before the start of a new year.

Ontario submitted that a more reasonable allowance for this maintenance category would be \$3,222,850, which was determined by adding an amount for inflation to the 1989 amount. Ontario requested that the Board disallow \$3,839,000 from the revenue requirement.

TCPL stated that it is illogical to suggest that the 1989 amount of \$3.0 million adjusted for one year of inflation would be appropriate for 1990. An equally illogical suggestion, in TCPL's opinion, would be that the \$6.4 million spent in 1988 adjusted for two years of inflation would be appropriate for 1990. According to TCPL, the 1989 pipeline maintenance program cannot be looked at in isolation.

TCPL also stated that the pipeline maintenance program takes place in the summer and much of the planning is done following an evaluation of that previous summer's work. Therefore, Ontario should not be surprised that TCPL's plans were still not final only weeks before the start of 1990. The details of the maintenance program were changed to specifically address a stress corrosion cracking problem experienced during 1989.

Views of the Board

As in the previous section, the Board does not accept Ontario's method of adjusting the 1989 projected actual for inflation to arrive at a forecast for 1990 in relation to mainline pipe maintenance. The significant difference between the 1988 and 1989 amounts illustrates the extent to which these maintenance expenses can vary and the illogical conclusions that can be reached by simply adjusting a particular year's expenses for inflation.

However, in view of the major change in the mainline maintenance program revealed during cross-examination by the TCPL witness, the Board shares Ontario's concern with respect to the reliability of the forecast amount.

As in the previous section, the Board does not wish to take action which would risk the possible impairment of the safety and integrity of the pipeline and is of the view that it would be more appropriate to accept the applied-for amount for toll purposes and to establish a deferral account for any

variance between the forecast and actual amounts rather than disallow an arbitrary amount from the revenue requirement.

Decision

The Board approves for the 1990 test year the applied-for amount of \$6,837,000 in respect of mainline pipe maintenance. As discussed in section 7.3.4, the Board has established a deferral account for variances between the actual and forecast costs of this category.

5.2.2.4 Canadian Gas Association Costs

In its RH-1-88 Phase II Decision, the Board disallowed from TCPL's revenue requirement all costs relating to the Canadian Gas Association ("CGA") advertising and Natural Gas Vehicle Research ("NGVR") programs. The Board stated that participation in such advertising programs by tollpayers should be on a voluntary basis directly with the CGA rather than indirectly through tolls. In addition, the Board questioned the appropriateness of TCPL participating in research programs related to gas consumption.

During this hearing, CGA intervened in order to convince the Board that it would be consistent with sound business practice for TCPL to participate directly in its advertising and NGVR programs and to urge the Board to include a reasonable allowance for expenses related to TCPL's participation in these programs in the approved 1990 revenue requirement. CGA submitted that a reasonable allowance would be \$125,000 for the NGVR program and \$225,000 for the advertising program.

CGA argued that if the Board disallows the participation of regulated gas transmission companies in such programs, the natural gas industry will be placed at a great disadvantage with respect to its competitors, in particular the vertically-integrated electric utilities. Further, without the participation of transmission utilities, the two CGA programs will be seriously curtailed, fundamentally changed in character or, at the very worst, eliminated.

CGA objected to the characterization that inclusion of costs for CGA programs in TCPL's cost of service would represent an involuntary contribution to those programs by tollpayers. CGA stated that the prudent cost of any program or activity found by the Board to be necessary and a legitimate business activity cannot be so characterized.

Union supported CGA's position and stated that if the Board is satisfied that the work of the CGA is worthwhile and benefits the industry as a whole, TCPL should be permitted to recover, in its cost of service, a reasonable contribution to those efforts. Union agreed that \$350,000 would be a reasonable amount for this purpose.

IPAC, IGUA and Ontario were opposed to an allowance for the CGA programs being included in TCPL's revenue requirement. IPAC stated that nothing has changed since this issue was last considered by the Board which would warrant a change in the decision. Further, IPAC was of the view that the programs in question, and particularly the advertising program, are expensive and there are no guarantees that they will produce the results which are anticipated.

Views of the Board

The Board was not persuaded that a change is warranted in the decision taken in RH-1-88 Phase II to disallow CGA costs from TCPL's revenue requirement. The Board continues to hold the view that participation in these programs by parties should be on a voluntary basis directly with the CGA rather than indirectly through tolls. The Board does not consider participation in these programs to be a necessary business activity of a regulated pipeline company but would encourage TCPL's non-regulated business units to participate in the CGA programs.

Decision

The Board denies the CGA's request to include an allowance for the CGA advertising program and the NGVR program in TCPL's revenue requirement.

5.2.2.5 National Energy Board Cost Recovery

In its letter to interested parties dated 31 July 1989, the Board provided estimates of the NEB cost levy for each gas and oil pipeline. The estimate for TCPL was \$7,162,000. In its application under general expenses, TCPL included an amount of \$3,581,000 representing 50 percent of the Board's estimate. TCPL explained that because of the policy and public interest nature of some of the Board's activities, it was of the view that 50 percent of the Board's costs should be funded from general tax revenue with the remaining 50 percent

recovered from regulated entities such as TCPL. In its application, TCPL requested a new deferral account in which it would record any difference between the actual and the forecasted costs levied during the 1990 test year. However, in argument, TCPL stated that this new deferral account was no longer required in view of the Board's decision to approve its proposal to defer variances in 1990 departmental and general expenses in the Corporate Relocation deferral account.

Views of the Board

The legislation implementing the recovery of the Board's operating costs will not be in place until after the start of the 1990 test year. In view of the uncertainty as to the date from which cost recovery will be effective, the question of the level of the Board's costs that will be recovered from regulated companies and the fact that any variance between this estimate and the actual fee levied is to be deferred, the Board accepts the estimate provided by TCPL for inclusion in 1990 tolls.

Although it may appear unusual to record NEB costs in a deferral account established for the relocation of a pipeline's head office, the Board concurs with TCPL that the Corporate Relocation deferral account is a convenient deferral account in which to record any variance between the amount included in tolls and the actual fee levied (see section 7.3.3). The Board is of this view because variances in departmental and general expenses incurred in 1990 will be recorded in the Corporate Relocation deferral account.

Decision

The Board approves the inclusion of \$3,581,000 in TCPL's revenue requirement in respect of the NEB cost recovery program. Any variance between the approved amount and the actual fee levied is, for convenience, to be recorded in the Corporate Relocation deferral account.

5.2.2.6 Industry Association Dues

IPAC stated in argument that while it recognizes the importance of pipelines being members of industry associations and their committees, it believes that there must be some control over expenditures on these organizations and the amount that is allowed to be recovered in a pipeline's cost of service. Therefore, IPAC submitted

centage of the total cost of industry association dues which TCPL can recover in its cost of service.

Decision

The Board was not persuaded as to the merits of IPAC's proposal that it would be appropriate to limit the amount of industry association dues which TCPL can recover in its revenue requirement by either establishing a fixed ceiling or a percentage of the total cost of the dues.

5.2.2.7 Test-Year Departmental and General Expenses

Decision

As discussed in section 7.3.3, the Board has reduced the amount TCPL applied for, with respect to departmental expenses, by a total of \$729,230 while it has increased by \$20,000 the amount applied for with respect to general expenses. Accordingly, the Board approves for inclusion in TCPL's 1990 revenue requirement an amount of \$55,338,040 for departmental expenses and \$31,445,156 for general expenses.

5.2.2.8 Cost Allocation

During the hearing, there was considerable discussion with respect to the process used by TCPL to allocate costs between its regulated and non-regulated activities. TCPL explained that general expenses are direct-charged or allocated on a basis that is directly related to the expense. For example, insurance costs are allocated on the basis of asset coverage, and stock and debt expense on the basis of the use of proceeds or the common equity percentage.

Most of the departments are specifically engaged in work programs relating to the regulated activities of the company. Some employees who are assigned to specific construction and deferred projects utilize time sheets to charge their time directly to those projects. Expenses are also direct-charged to the project.

For certain other departments, such as Information Services, Printing and Corporate Aviation, the allocation between regulated and non-regulated activities is based on usage. For the remaining departments that perform activities that relate to both the regulated and non-regulated

business of the company, departmental costs are allocated based on management estimates of the time spent. TCPL stated that because the number of employees in each of the departments is small, the managers are aware of the work being performed by their employees and can make an appropriate allocation based on past experience and forecast activities.

TCPL also stated that a time sheet system is not used to allocate these departmental costs because of the few departments involved and the difficulty that more junior employees might have in allocating common activities between regulated and non-regulated work efforts.

IPAC stated that it has been concerned with the procedures established by pipelines to ensure that there is a proper allocation between the utility and non-utility operations. In response to a claim by TCPL that it has been able to reduce costs as a result of its recent restructuring, IPAC pointed out that the pipeline's share of TCPL's corporate costs have increased significantly since the divestiture of Encor Energy Corporation Inc. and stated that if TCPL had been allocating costs properly in the past, there would be a greater degree of costs savings than the amount claimed by TCPL.

While recognizing that some of TCPL's corporate costs might be reduced through the relocation to Calgary, IPAC urged the Board to provide a clear direction to TCPL, at the next tolls hearing, to justify each of its staffing requirements for its shared corporate groups, comparing its requirements prior to the divestiture and its requirements in Calgary.

In relation to the Corporate Relocation deferral account, CPA submitted that TCPL could keep better track of costs relating to the relocation if it used time sheets or some other process to allocate salary-related costs.

In reply, TCPL submitted that the procedures used to allocate costs between regulated and non-regulated activities are proper and result in a fair allocation of costs. However, recognizing the concerns of intervenors expressed in argument, TCPL stated that it will review the various methodologies for allocating costs, including the use of time sheets, and will bring the most appropriate methodology forward for discussion in the next tolls proceeding.

Views of the Board

The Board shares the concerns expressed by intervenors that there must, at all times, be a proper allocation of costs between TCPL's utility and non-utility business activities. In view of the considerable discussion in this proceeding on certain specific aspects of those procedures, the Board is of the view that some refinements may be appropriate to alleviate the concerns of all parties.

The Board notes TCPL's undertaking to review the various methodologies for allocating costs between its regulated and non-regulated business units. The Board expects TCPL, in this review, to address the specific concerns raised by intervenors so that the appropriate refinements can be made.

Decision

In accordance with the undertaking given by TCPL in reply to the argument of parties regarding cost allocation, the Board expects TCPL to review all commonly used methods of allocating costs between utility and non-utility activities and to bring forward a proposal for examination in its next tolls proceeding.

5.3 Miscellaneous Revenue

5.3.1 Delivery Pressure Tolls

During cross-examination, TCPL stated that it had invoiced Gaz Métropolitain, inc. ("GMi") the amount of \$58,528 in respect of delivery pressure service for GMi's Storage Transportation Service ("STS") volumes delivered at Dawn and that GMi has not paid the bill. TCPL sought a direction from the Board compelling GMi to pay the invoiced amount plus carrying charges at the approved rate of return on rate base.

In support of its position, TCPL argued that:

- (i) the Board's direction in GH-2-87 was to collect the delivery pressure toll from all shippers utilizing a delivery point where higher pressure was provided;
- (ii) many new parties who previously never had to pay delivery pressure tolls had to commence making such payments as a result of the Board's RH-1-88 Phase II Decision;
- (iii) the Board has applied the delivery pressure toll to Interruptible Transportation Service ("IS") volumes, which were not included in the final revision to RH-1-88 Phase II; and,
- (iv) other STS customers have paid the delivery pressure toll and for GMi not to pay it would contravene section 62 of the NEB Act since all parties have received the same service over the same route.

GMi submitted that the issue before the Board is not whether GMi should be directed to pay the bill invoiced by TCPL for STS delivery pressure but only whether TCPL rendered its bill in conformity with prior Board decisions on delivery pressure. GMi argued that a delivery pressure toll should not be applied to STS volumes for a number of reasons. These reasons included:

- (i) TCPL does not incur any additional costs to guarantee a pressure of gas higher than 4 000 kilopascals ("kPa") at Dawn for STS;
- (ii) STS shippers will be forced to pay twice for the same delivery pressure service, once to TCPL and once through Union's M12 tariff;
- (iii) the delivery pressure tolls approved in RH-1-88 did not include STS volumes in their calculation; and,
- (iv) the STS Toll Schedule approved in RH-1-88 did not include reference to a delivery pressure charge.

Further, GMi was of the view that the revised STS Toll Schedule filed by TCPL on 20 November 1989 is not in conformity with the Board's decisions and GMi submitted that section 3(c) of that toll schedule is invalid and should be disallowed.

In reply, TCPL stated that GMi's assertion that additional costs are not incurred by TCPL to guarantee pressure higher than 4 000 kPa at Dawn for STS is contrary to the evidence. TCPL submitted that the costs incurred at Dawn for providing higher pressure for all volumes, including STS, are clearly shown in the application. In addition, GMi's STS service is a firm service and facilities have been designed and built to provide GMi with this service.

TCPL stated that GMi's assertion that a notional double charge would be involved if it had to pay de-

livery pressure tolls for STS is also incorrect because Union does not pay delivery pressure charges on the M12 volumes. They are borne by all TCPL system users.

Another matter raised by TCPL in relation to delivery pressure tolls for STS involved Consumers' Gas. TCPL explained that the Consumers' Gas STS contract operates in such a way that the toll is paid on withdrawal as opposed to injection as is the case for all other STS customers. TCPL has not been billing Consumers' Gas the delivery pressure toll for the STS volumes on injection but believes that such a toll should be paid for all of the same reasons that GMi should pay a delivery pressure toll and for the additional reason that the pressure that exists at the point of interconnection at Dawn between TCPL's system and Union's system reduces the need for Union to provide additional pressure on its own line. When a volume comes out of storage and into the Union system, that system is operating at a pressure that is in part a result of the pressure provided by TCPL at Dawn.

Consumers' Gas stated that while it did not accept TCPL's explanation for why its STS withdrawal volumes should be included, it did not challenge the applicability of the delivery pressure tolls to STS volumes delivered at Dawn for injection into storage, so long as it did not pay twice, once for injection at Dawn and once for withdrawal at Dawn.

Views of the Board

The Board concurs with GMi that the issue before the Board with respect to the applicability of a delivery pressure toll to STS volumes is whether TCPL rendered its bill in conformity with prior Board decisions. With respect to collection of tolls, it is the Board's view that it is inappropriate for TCPL to request that the Board compel any shipper to pay a bill for transportation service on its system. Rather, the Board considers such matters as more appropriate for consideration by the courts.

The delivery pressure toll design methodology was approved by the Board in its Decision of 18 May 1988, issued in respect of the hearing held pursuant to Order GH-2-87. In that decision, the Board determined that:

"...any incremental costs incurred by TransCanada to guarantee the provision of delivery pressure in excess of 4 000 kilopascals (580 pounds per square inch gauge) at any de-

livery point on the TransCanada system shall be recovered through an incremental two-part delivery pressure toll to be collected from all shippers using that delivery point." (emphasis added)

In the RH-1-88 Phase II proceeding, TCPL provided the detailed calculations for the incremental delivery pressure tolls for the four delivery points, one of which was Dawn, where such tolls would apply. Therefore, it is appropriate that TCPL should seek to collect a delivery pressure toll from all shippers, regardless of the class of service, using the Dawn delivery point or any of the other three delivery points where higher pressure is provided.

The Board agrees with the submissions of TCPL that additional costs are incurred to guarantee the provision of delivery pressure in excess of 4 000 kPa at Dawn for STS and that the payment of a delivery pressure toll by STS customers would not result in a notional double charge since Union does not pay for higher pressure on the M12 volumes. As discussed in section 5.1.3, the Board has accepted TCPL's proposal to include the delivery pressure charges attendant to the M12 volumes in Transmission by Others. Therefore, they will be borne by all system users.

With respect to GMi's request that the Board disallow section 3(c) of TCPL's STS Toll Schedule, the Board would point out that the revised tariff, wherein this section is found, was filed for review in a separate proceeding and was not a matter before the Board in this hearing.

Decision

Applying the delivery pressure toll to STS volumes, as was done in the case of GMi, is consistent with the methodology approved in the Board's decision in GH-2-87 and implemented in the RH-1-88 Phase II Decision. With respect to TCPL's request that the Board direct that carrying charges be applied at TCPL's rate of return on rate base on the amount not paid by GMi, the Board considers no such direction is necessary as this is a billing and payment matter that is covered by TCPL's General Terms and Conditions which address the question of interest on late payments.

A delivery pressure toll is also to be applied to Consumers Gas' STS volumes delivered at Dawn on injection into storage.

5.4 Purchase Price of Company-Use Gas

In the valuation of compressor fuel, sales tax on compressor fuel, and company-use gas, TCPL used a price of \$1.90 per GJ which is its forecast average price of system gas at the Alberta border for the test year. IGUA submitted that to value gas at \$1.90 per GJ is unrealistic because a great majority of shippers are able to provide their own compressor fuel at prices lower than \$1.90 and to value gas at this artificially high price results in higher costs for all tollpayers.

In order to obtain a more market-based price for gas, IGUA suggested that TCPL seek, on a confidential basis, some information with respect to the cost of compressor fuel gas from shippers. IGUA submitted that by obtaining information in this way, the valuation of line pack and company-use gas could also be set at a more realistic level.

With respect to the valuation of line pack, TCPL stated that it is already under direction by the Board to provide evidence in the next tolls hearing on the appropriateness of valuing line pack at the average Alberta border price for system gas. With

regard to the valuation of compressor fuel, TCPL submitted that IGUA's suggestion that TCPL seek pricing information from shippers would be difficult, if not impossible, to do. TCPL's concern related to the difficulty it would have in supporting such information at a tolls hearing.

Views of the Board

Since the appropriateness of valuing line pack at the average Alberta border price for system gas will be examined at the next tolls hearing, the Board is of the view that it would be appropriate to also examine the valuation of compressor fuel and company-use gas at that time. The price of \$1.90 per GJ is acceptable for the test year.

Decision

The Board approves the price of \$1.90 per GJ for compressor fuel, sales tax on compressor fuel, and company-use gas for the 1990 test year. At the next hearing, when the Board examines the valuation of line pack, the valuation of company-use gas and compressor fuel will also be examined (see section 3.2.2).

Regulatory Amortizations

6.1 Delivery Pressure Charges

For the reasons mentioned in section 5.1.3, TCPL deferred in the Demand Revenue deferral account its 1989 fixed-cost revenue of approximately \$430,000 attendant on the delivery pressure service respecting Union M12 and Great Lakes T-4 volumes. In this proceeding TCPL requested Board approval to recover in the 1990 test year the amounts so deferred.

No intervenors opposed TCPL's proposal to recover the deferred amount in the 1990 test year.

Views of the Board

The Board considers it appropriate to include the deferred amount in the 1990 revenue requirement for the same reasons as set out in section 5.1.3 with respect to similar charges to be incurred in 1990.

Decision

The Board authorizes, for inclusion in the 1990 revenue requirement, fixed-cost revenues relating to the sale of delivery pressure that were deferred in the Demand Revenue deferral account.

7.1 Accounts Amended and Continued

TCPL requested that the Great Lakes Demand Charge deferral account be amended to include a demand volume of 837 500 thousand cubic feet per day ("Mcf/d").

No intervenors opposed the continuation or amendment of this deferral account.

Views of the Board

The Board considers a Great Lakes demand volume of 837 500 Mcfd to be reasonable based on estimates of contracted volumes.

Decision

The Board approves the continuation of the Great Lakes Demand Charge deferral account, amended to include a demand volume of 837 500 Mcfd.

7.2 Accounts Continued Without Change

TCPL requested that the following deferral accounts be continued without change:

- Great Lakes Rates
- Great Lakes Exchange
- Great Lakes Refund
- Fixed Costs in the Great Lakes Commodity Charge
- Union Rates
- Trans Quebec & Maritimes Pipeline Inc. Toll Debt Service
- Future Legislative Changes to Various Taxes
- Income Tax Reassessment
- Gas-Related Costs and Purchase Price
- Compressor Fuel
- Demand Revenue
- Fixed-Cost Variance from Interruptible Service

No intervenors opposed the continuation of these deferral accounts.

Decision

The Board approves the continuation of these deferral accounts without change.

7.3 New Accounts

7.3.1 Union Demand Volume

TCPL requested a new deferral account in which to record the Union demand charges attendant on the difference between the forecasted demand volume of 12 680 thousand cubic metres ("10³m³") per day for 1990 and the actual demand in effect from time to time during the test year, together with carrying charges on the average of the opening and closing balances in the account for each month, calculated at one-twelfth the rate of return on rate base.

The contract demand level on Union is expected to increase significantly during 1990. TCPL argued that the timing of the commencement of this step-up in the Union contract demand level is dependent upon the timing of the step-up on Great Lakes. That is subject to FERC approvals and facilities being in place to carry these volumes. Since TCPL cannot control the demand level on Great Lakes, the timing of this step-up in the Union contract demand level is also beyond TCPL's control.

TCPL stated that it is only requesting this deferral account for a short period of time, during the years 1990 and 1991. Once the forecasted step-up in the Union contract demand level has occurred, absent the prospect of a similar large increase in the future, the deferral account would no longer be required.

Consumers' Gas and Union both supported the requested deferral account. Consumers' Gas stated

that when the step-up in the Union contract demand level occurs, and absent the prospect of an increase of similar magnitude, TCPL should revert to the historical situation where the TCPL shareholder bears the risk. Union argued that the deferral account should be limited to one year, but if at the next tolls hearing there is still uncertainty about Great Lakes' volumes, and TCPL is able to demonstrate that it is unable to make a reasonable forecast with the available information, the account could be extended.

No intervenors opposed the approval of the account.

Views of the Board

The Board considers that the requested deferral account is appropriate because the timing of the step-up in the Union contract demand volumes is beyond TCPL's control and ability to forecast. The Board agrees that once the forecasted step-up in the Union contract demand level has occurred, and if no similar large increases are expected in the future, the account may no longer be required.

Decision

The Board authorizes TCPL to record in a deferral account Union's demand charges attendant on the difference between the forecasted demand volume of $12\,680\,10^3\text{m}^3$ per day and the actual demand in effect from time to time during the 1990 test year, together with carrying charges on the average of the opening and closing balances in the account for each month calculated at one-twelfth the rate of return on rate base.

7.3.2 Union Commodity Volume

TCPL requested a new deferral account in which to record the Union annual commodity charges, including the synthetic natural gas ("SNG") premium, attendant on the difference between the forecasted commodity volume of $2\,851\,000\,10^3\text{m}^3$ and the actual commodity volumes that flow during the 1990 test year together with carrying charges on the average of the opening and closing balances in the account for each month, calculated at one-twelfth the rate of return on rate base.

The reasons that TCPL requested this account, as well as the views of interested parties and the Board, are the same as for the Union Demand Volume deferral account set out in section 7.3.1.

Decision

The Board authorizes TCPL to record in a deferral account the annual Union commodity charges, including the SNG premium, attendant on the difference between the forecasted commodity volume of $2\,851\,000\,10^3\text{m}^3$ and the actual commodity volumes that flow during the 1990 test year, together with carrying charges on the average of the opening and closing balances in the account for each month calculated at one-twelfth the rate of return on rate base.

7.3.3 Corporate Relocation

The Board, by letter dated 6 November 1989, denied TCPL's request of 31 October 1989 that it be allowed to file supporting information and written evidence related to its corporate relocation for consideration in the RH-3-89 hearing. The Board considered that it would be more appropriate for the costs and savings related to the relocation to be deferred and examined at TCPL's next tolls hearing, at which time the nature and magnitude of the costs and savings would be known with greater certainty. The Board therefore required TCPL to file for consideration in the RH-3-89 proceeding a proposed deferral methodology whereby any costs and savings incurred by TCPL during 1990 could be accumulated.

TCPL's proposed deferral methodology, which is set out in its response to the Board's Information Request No. 1, Item 67, is summarized as follows.

The deferral account proposed by TCPL would have five components:

(i) First Component

The first component of the deferral is to include all relocation costs that are associated with the corporate relocation. These costs will include employee relocation costs, employee severance costs, costs of recruiting staff for Calgary, costs for the move of the appropriate Toronto office furniture, equipment and records, costs for closing out the Toronto premises, consultants fees, etc.

The cost of general plant items for the Calgary office such as structures and improvements and furniture and equipment will not be included in the deferral. These costs will be included in construction orders.

(ii) Second Component

The second component is to include the credit for the relocation costs related to the non-regulated activities.

(iii) Third and Fourth Components

The third and fourth components are to include the difference between the actual total departmental and general expenses incurred in 1990 and the total departmental and general expenses allowed by the Board. TCPL proposed that the departmental and general expense in the 1990 cost of service be the same as allowed for the 1989 test year in the RH-1-88 Phase II decision, adjusted to include a forecast of the 1990 NEB operating cost levy of \$3,581,000 in general expense and a 6% salary increase of \$1,911,924 in departmental expense. The total adjusted departmental and general expenses applied for amounted to \$56,067,270 and \$31,425,156, respectively.

The company selected the 1989 allowed departmental and general expenses as the base for the 1990 application as they are the last costs reviewed by the Board. The company will bring its actual 1990 departmental and general expenses forward for review by the Board in a future hearing at which time the variance between the amounts allowed in the 1990 cost of service and the actual 1990 costs will be disposed of.

(iv) Fifth Component

The company will record in the fifth component of the deferral account the differences between the estimates and actuals for the following items:

- depreciation on structures and improvements and furniture and equipment (general) reflecting depreciation on the Calgary office structures and improvements and furniture and equipment (general) and the retirement of the Toronto office assets;
- municipal taxes;
- provincial capital taxes;
- variances in income taxes resulting from the depreciation expense variance, capital cost allowance variances relating to general plant

items and to the change in the effective tax rate;

- return on rate base resulting from the general plant additions for the Calgary office and the retirement of the Toronto office assets; and,
- net book value after salvage and removal costs, of the Toronto office structures and improvements and office furniture and equipment (general) at the time of the move.

(v) Other Cost Variances

The company amended its 1990 application to remove from rate base all 1990 general plant additions to structures and improvements and furniture and equipment (general) that relate to the Toronto offices. The 1990 general plant additions to furniture and equipment (computers) remained in the application as filed. The change to general plant additions resulted in an adjustment of depreciation expense as well.

CPA supported by the IGUA suggested that the Board should require TCPL to institute a refinement to its proposed methodology which would involve an allocation of costs as incurred, between those costs which are related to the relocation and those which are not.

Consumers' Gas stated that there were two important issues that it wished to examine in the next tolls case, (a) whether the relocation was necessary and prudent, and (b) whether proper principles and procedures were used by TCPL in allocating costs between the regulated and non-regulated businesses.

The Alberta Petroleum Marketing Commission requested that the Board direct TCPL to finalize the guidelines it intends to use to allocate move-related costs, and file these guidelines with the NEB and all interested parties in a timely manner prior to the costs being incurred.

Several intervenors argued that the account is a special deferral account as defined in the Board's RH-3-86 TCPL Reasons for Decision, and that therefore carrying charges should be calculated at a rate that approximates TCPL's probable cost of financing the deferred balance. IPAC, Consumers' Gas and Union Gas argued that the unfunded debt rate was appropriate.

Views of the Board

The Board is of the view that the Corporate Relocation deferral account proposed by TCPL with certain modifications, as set out in the decision section, is appropriate in the circumstances. However, as stated in the Board's ruling, filed as Exhibit A-11 in the hearing, the disposition of the balance in the deferral account will be dealt with in a future proceeding and at that time the Board will consider all matters associated with the relocation and the effect on the departmental and general expenses for 1990.

By letter dated 21 December 1989, the Board decided to review the guidelines that TCPL will use to identify the costs that are related to the move and the portion of the costs that are attributable to the utility operations. A further letter was sent on 26 January 1990 establishing a separate written proceeding by which the examination of the guidelines was to be conducted. The timetable called for TCPL's reply to be submitted by 2 March 1990.

The Board considers the Corporate Relocation deferral account to be a special deferral account and hence carrying charges should be calculated at the rate that approximates TCPL's probable cost of financing the deferred balance. At this time, the appropriate rate is the short-term rate of 11.25%.

Decision

On 21 December 1989, the Board approved TCPL's proposed Corporate Relocation deferral account effective 1 January 1990, to work as described in TCPL's response to Board Information Request No. 67, except that carrying charges were approved at a short-term rate of 11.25%. The Board also indicated that it had reserved its decision on the adjustments to be made to the 1989 cost of service numbers included in TCPL's proposal.

With respect to these adjusted numbers, that is the amounts to be included in the 1990 revenue requirement for departmental and general expenses, and to be used by TCPL in calculating the balance of the third and fourth components of the deferral account, the Board does not accept the amounts applied for by TCPL.

The Board has reduced the amount applied for with respect to departmental expenses by a total of \$729,230. This adjustment reflects:

- (i) the decision by the Board (see section 5.2.1.4) to approve a year-over-year salary increase of 5.5% (\$137,322);
- (ii) the Board's view that the 1989 approved departmental expenses were \$53,827,498 rather than the \$54,155,346 submitted by TCPL in its response to Board Information Request No. 67 (\$327,848); and,
- (iii) the Board's view that the second adjustment contained in the table at page 3 of TCPL's response to Information Request No. 67 overstated the approved 1989 departmental salaries. This adjustment (\$264,060) reflects the fact that the TCPL table used an approved departmental salary number of \$24,181,322 which was a gross amount before amounts capitalized and charged out, while the Board considers a number after such charge-outs of \$19,780,321 to be more appropriate.

With respect to general expenses, the Board has increased, by \$20,000, the amount applied for by TCPL. This adjustment is made to correct an error in addition contained in TCPL's response to Information Request No. 67.

Accordingly, the Board approves for inclusion in TCPL's 1990 revenue requirement an amount of \$55,338,040 for departmental expenses and \$31,445,156 for general expenses. TCPL is directed to record in the third and fourth components of its Corporate Relocation deferral account, respectively, the difference between these approved amounts and the actual departmental and general expenses incurred in 1990.

7.3.4 Maintenance Expense

TCPL applied for maintenance expense of \$31,977,418 for the 1990 test year which it considered necessary for the safe and reliable operation of the pipeline. The two main categories of maintenance expense are Prime Mover Overhauls and Repairs and Mainline Pipe Maintenance which are forecast to be \$16,974,140 and \$6,837,000, respectively, in the test year.

Ontario argued that TCPL had not provided adequate support for a large portion of Prime Mover Overhaul costs. The total forecast cost of Prime

Mover Overhauls included \$4 million for unplanned breakdown maintenance. Ontario contended that TCPL did not provide any clear evidence for the previous years about the normal portion of the planned versus the unplanned compressor work. During cross-examination TCPL's witness revised the forecast cost of hydrostatic testing upward from \$452,000 to approximately \$5.3 million. Ontario argued that if such an important part of the maintenance program was still not well defined only weeks before the start of the new year, the forecast for Mainline Pipe Maintenance could not be relied upon. Ontario requested the Board to disallow \$1,424,667 of TCPL's forecast cost of Prime Mover Overhauls and Repairs and \$3,839,000 of TCPL's forecast cost of Mainline Pipe Maintenance.

In relation to Prime Movers, TCPL argued that it had laid out its program in great detail in response to Ontario's request for information, showing where its costs have been incurred in 1988 and 1989, and where they will occur down to unit level in 1990. The approximately \$4.0 million provided for unplanned failures in 1990 is higher than in recent years because of currently higher throughput. TCPL further pointed out that its Pipeline Maintenance program takes place in the summertime, and therefore much of the planning is done in the fall following an evaluation of the previous year's work. Since TCPL did find some defects due to stress corrosion cracking in 1989, it plans to change the details of the program specifically to address that problem.

IPAC noted that the company's witness testified during cross-examination, that if the actual amount of transmission expense capitalized by TCPL is greater than forecast, TCPL stands to collect the variance, both in cost of service and in rate

base. IPAC was concerned that, given the extensive construction program for the upcoming 1990 test year, TCPL may not have adequately forecast its transmission expense to be capitalized and that it will stand to collect the variance between the actual and forecasted amount twice.

Views of the Board

The Board is concerned that TCPL may have difficulty completing both its large capital program and its forecast maintenance program in the test year. It appears that the cost of the Mainline Pipe Maintenance program as well as a large portion of the cost of the Prime Mover Overhauls program is difficult to forecast. Furthermore, TCPL has not provided convincing evidence to support its forecast for these programs. In view of this, the Board wishes to minimize any over or under-recovery of maintenance expense in the test year.

Decision

The Board directs TCPL to record in a deferral account: (i) the variance between the actual cost and the approved amount of \$16,974,140 in respect of prime mover overhauls and repairs; and (ii) the variance between the actual cost and the approved amount of \$6,837,000 in respect of mainline pipe maintenance. In addition, carrying charges on the amounts deferred in this account are to be calculated at the rate of return on rate base.

7.3.5 Transmission Plant in Service

Decision

The Board approves a deferral account as explained in section 3.1.1.

8.1 Throughput Forecast

TCPL's 1990 test-year throughput forecast is 41 623 million cubic metres ("10⁶m³"), of which 29 248 10⁶m³ is forecast for the domestic market, and 12 375 10⁶m³ is forecast for the export market. This represents an increase of 5 percent over domestic and 24 percent over export volumes forecasted for 1989 and approved by the Board.

TCPL's original throughput forecast of July 1989 was revised to more accurately reflect recent experience. It was further revised in the evidence to reflect the Board's recent decision in GH-1-89 which denied certain export licence applications.

Included in its throughput forecast was 1 042 10⁶m³ associated with contract optimizations, 340 10⁶m³ for the domestic market, 192 10⁶m³ for exports at Niagara Falls, and 510 10⁶m³ for exports at Emerson. TCPL explained that the inclusion of contract optimizations reflected the expectation that existing shippers on the TCPL system would maximize their deliveries under existing contracts to the extent possible in order to improve their load factors.

Through the utilization of the firm service tariff provisions associated with upstream diversions and capacity assignments to multiple end-use customers, TCPL expected existing shippers to optimize such deliveries under their firm transportation contracts. TCPL's forecast for contract optimizations was based on discussions it had had with existing shippers, whose forecast load factors were below 100 percent. TCPL anticipated that the transportation contract would continue to be used to serve the primary transportation customer, and that on any given day, when that customer's takes were below 100 percent, the shipper would offer the gas to alternative customers on an interruptible or "best efforts" basis. The availability of IS for the test year would be dependent on the residual of forecast total discretionary demand less

contract optimizations and less imports. Total discretionary demand is the result obtained by subtracting, from forecast total demand, all firm supply delivered on the system.

TCPL argued that in order to provide the best test-year forecast possible for contract optimizations, it had agreed with those shippers who had provided such market information to TCPL on a confidential basis, to not disclose the details of this market-sensitive information to others unless required by regulation. TCPL maintained that disclosure of the shippers' strategic, confidential and market-sensitive information through the public hearing process, would inhibit any future shipper cooperation necessary to enable TCPL to derive the most accurate forecasts possible for contract optimizations.

CPA questioned the control TCPL had over its own operations since TCPL's throughput forecast was revised several times.

CPA also questioned TCPL on the impact on capacity utilization resulting from a contractual dispute between WGML and Unigas Corporation ("Unigas"). The dispute centred on whether certain volumes associated with Unigas' sales to Northern Natural Gas Company ("Northern Natural") should be included in TCPL's throughput forecast. CPA contended that removal of 885 thousand cubic metres per day ("10³m³/d"), previously associated with incremental sales by WGML to Northern Natural, should reflect on the capacity utilization by Unigas.

In argument, TCPL rebutted this suggestion by asserting that it had properly reflected the 885 10³m³/d change associated with WGML's incremental deliveries to Northern Natural by not reducing any fixed allocation units. TCPL stated that this issue had no bearing on its total contractual obligations to WGML at the Emerson export point. TCPL added that Unigas, which has the

transportation contract on the TCPL system, has indicated its intention to continue to fully utilize the 1 912 10³m³/d of capacity it had originally contracted for.

CPA also questioned whether changes in contract demand for Union and Consumers' Gas should be reflected in the test year throughput forecast through changes to IS volumes or contract optimization volumes. TCPL argued that changes in contract demand are reflected as corrections to the fixed allocation units and thus do not affect the variable allocation units of Union and Consumers' Gas. TCPL further argued that since throughput is not affected, there was no need to revise the IS volumes or contract optimization volumes for the test year.

CPA also raised the issue of whether the construction of 2 124.6 10³m³/d of advance capacity approved in GH-4-88 and allocated in the throughput forecast in part to GMi, Vector Energy Inc. ("Vector") and Direct Marketing Energy Limited ("Direct"), was in breach of certain conditions of Certificates GC-75 and GC-76. CPA asserted that, because the licence applications of Vector and Direct were denied by the Board, to construct facilities under advance capacity for these shippers would be in violation of condition 11 of Certificate GC-76, which states that facilities cannot be constructed in the absence of the necessary export authorizations.

TCPL stated that the offering of this capacity to these customers is consistent with the description of advance capacity in GH-4-88, that is:

"Advance capacity might be included in a facilities design, at the time of filing the application for facilities, to provide some flexibility for maturing of projects over time. It is anticipated that this advance capacity would fall to zero either before the in-service date of the facilities providing that capacity or during the contract year under question."

TCPL argued that it had interpreted the GH-4-88 Decision to mean that the Board's authorization of the construction of advance capacity facilities was made with no assurance that the capacity would be fully contracted for during that first contract year.

TCPL maintained that it had not breached any certificate condition, since it had received written

Board confirmation that it had complied, to the Board's satisfaction, with conditions 13 and 11 of Certificates GC-75 and GC-76, respectively.

Views of the Board

The Board continues to hold the view that natural gas demand forecasting is made difficult by the evolving process of deregulation in Canada and in the U.S. and by such factors as the weather, the level of economic activity, gas supply and inter-fuel competition. However, TCPL's forecast of gas demand is made less difficult when the pipeline is operating at or near full capacity, and is likely to remain so during the test year.

Traditionally, TCPL's test-year forecasts of natural gas demand for the domestic market, when compared with actual throughput, have been within the 2 to 3 percent range of accuracy. The Board believes that the changes in the contract demand for Union and Consumers' Gas have been reasonably reflected in the test-year throughput forecast, and that no changes need to be made to the test-year IS volumes or contract optimization volumes.

With respect to the removal of the volume of gas associated with Northern Natural, the Board believes this to be a non-issue, and the fact that Unigas has the current transportation contract suggests that it intends to utilize the capacity originally contracted.

With respect to the construction of 2 124.6 10³m³/d of advance capacity approved in GH-4-88 and allocated in part to GMi, Vector, and Direct for the test year, the Board does not view this construction to be in violation of any condition of Certificates GC-75 or GC-76. In accordance with the GH-4-88 Decision, advance capacity, by definition, is not constructed to be specific to any particular project. Furthermore, before commencing construction, TCPL received NEB approval that all the conditions required by Certificates GC-75 and GC-76 had been satisfied. The offering of this capacity to these customers is in keeping with the Board's decision on advance capacity in its GH-4-88 Decision.

The reasonableness of including a forecast for contract optimizations in the test-year throughput forecast was not disputed in the hearing. However, the Board is concerned with including the associated volumes in the throughput forecast given that no means exist for parties to test the basic assump-

tions TCPL used to derive the contract optimization forecast.

The inclusion of volumes for test-year contract optimizations, although small relative to total throughput (2 percent), remains, nevertheless, a significant load. The Board accepts TCPL's forecast for contract optimizations for inclusion in its throughput forecast for this application, but expects TCPL to develop, for the next tolls application, a methodology that would enable interested parties to examine the reasonableness of its contract optimization forecast while still respecting the degree of confidentiality requested by those shippers supplying the strategic information.

The Board recognizes the merit of taking account of recent experience to produce a more accurate gas demand forecast. The Board believes that TCPL's current throughput forecast does reasonably reflect the results of recent experience. Accuracy in natural gas demand forecasting is critical to the setting of reasonably accurate tolls and to the communication of appropriate market signals to tollpayers through the toll-setting mechanism.

Decision

The Board accepts TCPL's 1990 throughput forecast for cost allocation and toll design purposes.

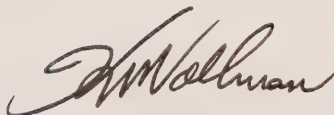
The foregoing chapters, together with Order No. TG-1-90, constitute our Decision and Reasons for Decision in this matter.



W.G. Stewart
Presiding Member



A.B. Gilmour
Member



K.W. Vollman
Member

Ottawa, Canada
March, 1990

IN THE MATTER OF the *National Energy Board Act* ("the Act") and the regulations made thereunder; and

IN THE MATTER OF an application dated 26 July 1989, as revised 27 September 1989, by TransCanada PipeLines Limited ("TCPL") pursuant to Part IV of the Act for certain orders respecting its tolls; filed with the National Energy Board ("the Board") under File No. 1562-T1-29.

B E F O R E the Board on 17 January 1990.

WHEREAS TCPL has filed an application dated 26 July 1989, which was subsequently revised on 27 September 1989, for an order fixing just and reasonable tolls that it may charge for transportation services rendered effective 1 January 1990;

AND WHEREAS the Board, in a public hearing held pursuant to Board Order RH-3-89, heard the evidence presented by the applicant and interested parties on TCPL's application;

AND WHEREAS the Board, expecting that its final decision on TCPL's application would not be rendered until after 1 January 1990, issued interim Order TGI-3-89 on 20 December 1989, which authorized TCPL to charge, on an interim basis, the tolls that were in effect, pending the Board's final decision;

AND WHEREAS the Board on 8 January 1990 authorized tolls to be charged, on an interim basis, for firm and interruptible service from the St. Clair receipt point to the Niagara Falls delivery point;

AND WHEREAS the Board's decisions on the application are set out in its Decision dated 17 January 1990 and in this Order;

IT IS ORDERED THAT:

1. TCPL shall, for accounting, toll-making and tariff purposes, implement procedures conforming to the Board's decisions outlined in its Decision dated 17 January 1990 and in this Order;
2. The tolls authorized to be charged on an interim basis under interim Order TGI-3-89 and the Board's letter of 8 January 1990 are disallowed as of the end of the day on 9 February 1990;
3. With respect to service rendered by TCPL during the period 1 January 1990 to 9 February 1990, TCPL shall bill for such service as if the tolls authorized in this Order had been in effect from 1 January 1990.
4. TCPL shall, commencing 10 February 1990, charge the tolls set out in Appendix I to this Order; and,
5. TCPL shall, forthwith, file with the Board, and serve upon all parties to the hearing of this application, new tariffs including tolls conforming with the decisions outlined in the Decision dated 17 January 1990 and as set out in Appendix I to this Order.

NATIONAL ENERGY BOARD

Marie Tobin
Secretary

TransCanada PipeLines Limited
Transportation Tolls
Effective 1 January 1990

Canadian Service	Demand Toll (\$/10 3m3/mo)	Commodity Toll (\$/10 3m3)
(a)	(b)	(c)
Saskatchewan Zone		
FS	157.33	0.414
IS-1		6.880
IS-2		6.161
PS		71.943
TWS		23.813
Manitoba Zone		
FS	257.68	0.788
IS-1		11.378
IS-2		10.201
PS		72.317
TWS		24.187
Western Zone		
FS	410.92	1.367
IS-1		18.254
IS-2		16.378
PS		72.896
TWS		24.766
Northern Zone		
FS	624.28	2.160
IS-1		27.815
IS-2		24.965
PS		73.689
TWS		30.849
Eastern Zone		
FS	747.60	2.658
FST		19.138
IS-1		33.381
IS-2		29.968
PS		102.427
TWS		33.117

TransCanada PipeLines Limited
Transportation Tolls
Effective 1 January 1990

Canadian Service	Demand Toll (\$/10 3m3/mo)	Commodity Toll (\$/10 3m3)
(a)	(b)	(c)
TransGas Transportation:		
Empress & Richmond FS	134.90	0.331
Bayhurst & Liebenthal FS	127.80	0.304
Success FS	101.69	0.207
Herbert FS	46.31	0.005
Other Transportation:		
Bayhurst and Success to Belle Plaine and Regina IS-1		5.141
IS-2		4.600
St. Clair to Dawn FS	36.91	0.000
IS-1		1.517
IS-2		1.348
Oakville to Trenton IS-1		3.508
IS-2		3.134

TransCanada PipeLines Limited
Transportation Tolls
Effective 1 January 1990

Export Service	Demand Toll (\$/10 3m3/mo)	Commodity Toll (\$/10 3m3)
(a)	(b)	(c)
Herbert to Emerson		
FS	239.00	0.724
IS-1		10.546
IS-2		9.455
Empress to Spruce		
FS	281.76	0.884
IS-1		12.463
IS-2		11.177
Empress to Emerson		
FS	287.02	0.903
IS-1		12.698
IS-2		11.388
Empress to Dawn		
FS	654.31	2.296
IS-1		29.185
IS-2		26.198
Success to Niagara Falls		
FS	727.70	2.572
IS-1		32.477
IS-2		29.155
Empress to Niagara Falls		
FS	791.32	2.794
IS-1		35.314
IS-2		31.701
Empress to Cornwall		
FS	808.35	2.850
IS-1		36.070
IS-2		32.379
Empress to Sabrevois		
FS	843.92	2.983
IS-1		37.665
IS-2		33.811

TransCanada PipeLines Limited
Transportation Tolls
Effective 1 January 1990

Export Service	Demand Toll (\$/10 3m3/mo)	Commodity Toll (\$/10 3m3)
(a)	(b)	(c)
Empress to Philipsburg		
FS	851.77	3.012
IS-1		38.016
IS-2		34.127
St. Clair to Dawn		
FS	36.91	0.000
IS-1		1.517
IS-2		1.348
St. Clair to Niagara Falls		
FS	111.41	0.251
IS-1		4.829
IS-2		4.321

TransCanada PipeLines Limited
Transportation Tolls
Effective 1 January 1990

Miscellaneous Services	Demand Toll (\$/10 3m3/mo)	Commodity Toll (\$/10 3m3)
(a)	(b)	(c)

Storage Transportation Service:

ICG (Ontario)-NDA	153.82	0.411
ICG (Ontario)-SSMDA	58.50	0.052
ICG (Ontario)-EDA	109.94	0.246
Kingston	103.06	0.220
GMi-EDA	177.19	0.499
Consumers Gas	69.41	0.093

Exchange Gas:

Consumers Gas	
-Oakville/Victoria Square	35.83
Consumers Gas	
-Oakville/Markham	38.53

Delivery Pressure:

	Demand Toll (1)	
	Monthly	Daily Equivalent
	(\$/10 3m3/mo)	(\$/10 3m3)
Emerson	0.53	0.017
Dawn	4.91	0.162
Niagara Falls	8.48	0.279
Sudbury	0.00	0.000

Code:	FS	Firm Service
	FST	Firm Service Tendered
	IS-1	Tier One Interruptible Service
	IS-2	Tier Two Interruptible Service
	PS	Peaking Service
	TWS	Temporary Winter Service
	NDA	Northern Delivery Area
	SSMDA	Sault Ste. Marie Delivery Area
	EDA	Eastern Delivery Area

Note: (1) The monthly demand toll is applicable to FS and FST and the daily equivalent demand toll is applicable to STS injections, IS, PS, TWS, and diversions.

Appendix II

File: 1562-T1-29

7 February 1990

VIA TELECOPIER

Mr. James M. Murray
Senior Legal Counsel
TransCanada PipeLines Limited
P.O. Box 54
Commerce Court West
Toronto, Ontario
M5L 1C2

Dear Mr. Murray:

Re: TransCanada PipeLines Limited
1990 Tolls Application (RH-3-89)
National Energy Board Decision

The Board released its Decision on the referenced application with Reasons to follow at 4:30 p.m. on 5 February 1990. Since that time, it has come to the Board's attention that the tolls included in the schedule attached to the Board's Decision and Order TG-1-90 contain a minor computational

error and accordingly do not reflect the Board's Decision on TransCanada's application.

The error in calculation is with respect to the FST differential. Although the tolls calculated by the Board reflect the Decision at section 5.1.1 to reduce the revenue requirement in relation to the Union non-synthetic natural gas commodity cost, a corresponding adjustment to the FST differential in the toll calculation model was not made.

Accordingly, the attached revised Appendix I shall replace the Appendix I attached to Order TG-1-90.

Yours truly,

Marie Tobin
Secretary

c.c. All Interested Parties to RH-3-89

TransCanada PipeLines Limited
Transportation Tolls
Effective 1 January 1990

Canadian Service	Demand Toll (\$/10 3m3/mo)	Commodity Toll (\$/10 3m3)
(a)	(b)	(c)
Saskatchewan Zone		
FS	157.33	0.412
IS-1		6.878
IS-2		6.159
PS		71.941
TWS		23.811
Manitoba Zone		
FS	257.68	0.785
IS-1		11.375
IS-2		10.198
PS		72.314
TWS		24.184
Western Zone		
FS	410.92	1.361
IS-1		18.248
IS-2		16.372
PS		72.890
TWS		24.760
Northern Zone		
FS	624.28	2.151
IS-1		27.806
IS-2		24.956
PS		73.680
TWS		30.840
Eastern Zone		
FS	747.61	2.647
FST		19.199
IS-1		33.371
IS-2		29.957
PS		102.416
TWS		33.106

TransCanada PipeLines Limited
Transportation Tolls
Effective 1 January 1990

Canadian Service	Demand Toll (\$/10 3m3/mo)	Commodity Toll (\$/10 3m3)
(a)	(b)	(c)
TransGas Transportation:		
Empress & Richmond FS	134.90	0.329
Bayhurst & Liebenthal FS	127.79	0.302
Success FS	101.69	0.206
Herbert FS	46.31	0.005
Other Transportation:		
Bayhurst and Success to Belle Plaine and Regina IS-1		5.141
IS-2		4.600
St. Clair to Dawn FS	36.91	0.000
IS-1		1.517
IS-2		1.348
Oakville to Trenton IS-1		3.508
IS-2		3.134

TransCanada PipeLines Limited
Transportation Tolls
Effective 1 January 1990

Export Service	Demand Toll (\$/10 3m3/mo)	Commodity Toll (\$/10 3m3)
(a)	(b)	(c)
Herbert to Emerson		
FS	239.00	0.721
IS-1		10.543
IS-2		9.452
Empress to Spruce		
FS	281.76	0.880
IS-1		12.459
IS-2		11.173
Empress to Emerson		
FS	287.02	0.900
IS-1		12.695
IS-2		11.385
Empress to Dawn		
FS	654.31	2.296
IS-1		29.185
IS-2		26.198
Success to Niagara Falls		
FS	727.70	2.572
IS-1		32.477
IS-2		29.155
Empress to Niagara Falls		
FS	791.32	2.782
IS-1		35.302
IS-2		31.689
Empress to Cornwall		
FS	808.35	2.839
IS-1		36.059
IS-2		32.368
Empress to Sabrevois		
FS	843.92	2.971
IS-1		37.653
IS-2		33.799

TransCanada PipeLines Limited
Transportation Tolls
Effective 1 January 1990

Export Service	Demand Toll (\$/10 3m3/mo)	Commodity Toll (\$/10 3m3)
(a)	(b)	(c)
Empress to Philipsburg		
FS	851.77	3.000
IS-1		38.004
IS-2		34.115
St. Clair to Dawn		
FS	36.91	0.000
IS-1		1.517
IS-2		1.348
St. Clair to Niagara Falls		
FS	111.41	0.251
IS-1		4.829
IS-2		4.321

TransCanada PipeLines Limited
Transportation Tolls
Effective 1 January 1990

Miscellaneous Services	Demand Toll (\$/10 3m3/mo)	Commodity Toll (\$/10 3m3)
(a)	(b)	(c)

Storage Transportation Service:

ICG (Ontario)-NDA	153.82	0.411
ICG (Ontario)-SSMDA	58.50	0.052
ICG (Ontario)-EDA	109.94	0.246
Kingston	103.06	0.220
GMi-EDA	177.19	0.499
Consumers Gas	69.41	0.093

Exchange Gas:

Consumers Gas	
-Oakville/Victoria Square	35.83

Consumers Gas	
-Oakville/Markham	38.53

Delivery Pressure:

	Demand Toll (1)	
	Monthly (\$/10 3m3/mo)	Daily Equivalent (\$/10 3m3)
Emerson	0.53	0.017
Dawn	4.91	0.162
Niagara Falls	8.48	0.279
Sudbury	0.00	0.000

Code:	FS	Firm Service
	FST	Firm Service Tendered
	IS-1	Tier One Interruptible Service
	IS-2	Tier Two Interruptible Service
	PS	Peaking Service
	TWS	Temporary Winter Service
	NDA	Northern Delivery Area
	SSMDA	Sault Ste. Marie Delivery Area
	EDA	Eastern Delivery Area

Note: (1) The monthly demand toll is applicable to FS and FST and the daily equivalent demand toll is applicable to STS injections, IS, PS, TWS, and diversions.

Appendix III

Functional Distribution and Classification of Revenue Requirement for the 1990 Test Year

	Total	Metering	Transmission -Fixed	Transmission -Variable	Unaccounted for Gas
Transmission by Others	\$195,283,924	-	130,090,966	65,192,958	-
Operation and Maintenance	171,453,763	44,823,242	104,705,552	23,910,393	(1,985,424)
Depreciation	120,338,777	1,642,316	118,696,461	-	-
Municipal & Other Taxes	50,057,962	485,806	49,572,156	-	-
Income Taxes	72,468,405	908,305	71,560,100	-	-
Regulatory Def. & Amort.	(1,211,951)	-	(1,211,951)	-	-
Foreign Exchange Loss	(616,000)	-	(616,000)	-	-
Other Operating Income	(602,280)	-	(602,280)	-	-
Return on Rate Base	365,454,681	4,580,540	360,874,141	-	-
Revenue Requirement	\$972,627,281	\$52,440,209	\$833,069,145	\$89,103,351	(\$1,985,424)
Miscellaneous Revenue	(38,353,975)	(1,808,303)	(34,487,661)	(2,058,011)	-
Revenue Requirement for Toll Design Purposes	\$934,273,306	\$50,631,906	\$798,581,484	\$87,045,340	(\$1,985,424)

Appendix IV

File: 1562-T1-29

21 December 1989

VIA TELECOPIER

Mr. James M. Murray
Senior Legal Counsel
TransCanada PipeLines Limited
P.O. Box 54
Commerce Court West
Toronto, Ontario
M5L 1C2

Dear Mr. Murray:

Re: TransCanada PipeLines Limited
1990 Tolls Application (RH-3-89)

The Board is continuing its review of TransCanada's 1990 tolls application, and will be unable to render a final decision on this application before 1 January 1990. Accordingly, the Board has decided to issue the attached interim order, Order No. TGI-3-89, authorizing TransCanada to charge, on an interim basis, effective 1 January 1990, its existing tolls as set out in Appendix III to National Energy Board Reasons for Decision RH-1-88 Phase II, and in the Board's letters of 14 September 1989 and 16 October 1989, respecting service from Dawn to St. Clair.

With respect to TransCanada's request set out in its letter to the Board dated 29 November 1989, the Board approves, effective 1 January 1990, the inclusion of TransCanada's M12 fuel requirements in the determination of its own monthly fuel ratios. At the time the Board makes its final Order on TransCanada's 1990 tolls application, an appropriate adjustment will be made to the Union non-synthetic natural gas commodity cost included in Transmission by Others to reflect this decision.

The Board has also decided to approve, subject to some modification, TransCanada's proposed corporate relocation deferral account. The account shall be effective as of 1 January 1990 and shall be set up to work as described in TransCanada's response to Board Information Request Number 67, except that the carrying charge shall be at the short term rate of 11.25%. This carrying charge rate will be subject to review in the next toll proceeding. In addition, the Board will reserve its decision on the two applied-for adjustments to the approved 1989 cost of service numbers, namely the proposed 6% salary increase and the allowance for the Board's cost recovery program.

The Board is interested in reviewing the guidelines that TransCanada will be using to identify the costs that are related to the move and the portion of the costs that are attributable to the utility operations. Accordingly, TransCanada is directed to file its guidelines with the Board and serve copies on interested parties to RH-3-89 by 25 January 1989. Interested parties will be provided an opportunity to comment when the Board sets the procedure to examine the guidelines once filed.

The Board requires that copies of this letter and the attached Order be served on all interested parties to RH-3-89.

Yours truly,

Marie Tobin
Secretary

ORDER TGI-3-89

IN THE MATTER OF the *National Energy Board Act* ("the Act") and the regulations made thereunder; and

IN THE MATTER OF an application dated 26 July 1989, as revised 27 September 1989, by TransCanada PipeLines Limited ("TransCanada") for certain orders respecting tolls under Part IV of the Act; filed with the Board under File No. 1562-T1-29.

BEFORE the Board on 20 December, 1989.

WHEREAS TransCanada has filed an application dated 26 July 1989, as revised by its application dated 27 September 1989, for orders fixing just and reasonable tolls that it may charge for or in respect of transportation services rendered effective 1 January 1990;

AND WHEREAS the Board in a public hearing held pursuant to Order RH-3-89 heard the evidence presented by the applicant and interested parties on TransCanada's application;

AND WHEREAS the Board expects that its final decision on TransCanada's application will not be rendered until after 1 January 1990;

IT IS ORDERED THAT:

Pursuant to subsection 19(2) and section 59 of the Act, TransCanada's existing tolls as set out in appendix III to the Board's Reasons for Decision RH-1-88 Phase II and in the Board's letters of 14 September 1989 and 16 October 1989 respecting service from Dawn to St. Clair are to be charged on an interim basis for the period commencing 1 January 1990 and will remain in effect until the day before the Board's final order on TransCanada's application comes into effect.

NATIONAL ENERGY BOARD

Marie Tobin
Secretary

Appendix V

File: 1562-T1-32

8 January 1990

VIA TELECOPIER

Mr. Neil D.D. Patterson
Solicitor
TransCanada PipeLines Limited
P.O. Box 54
Commerce Court West
Toronto, Ontario
M5L 1C2

Dear Mr. Patterson:

Re: Tolls for Firm and Interruptible Service
from the St. Clair Receipt Point to the
Niagara Falls Delivery Point

The Board has considered your application dated 29 December 1989 and has approved on an interim basis the following firm service (FS) and interruptible service (IS) tolls for transportation from the St. Clair receipt point to the Niagara Falls delivery point.

FS Demand Toll:	\$101.93/10 ³ m ³ /mo.
FS Commodity Toll:	\$ 0.334/10 ³ m ³

IS-1 Commodity Toll:	\$ 4.523/10 ³ m ³
IS-2 Commodity Toll:	\$ 4.057/10 ³ m ³

In view of the Board's decision on 20 December 1989 to have TransCanada charge its existing tolls on an interim basis pending the final decision on the RH-3-89 proceeding, these tolls are also calculated in accordance with the Board's decision on Phase II of the RH-1-88 proceeding. TransCanada shall charge these tolls on an interim basis effective the date of first delivery or the date of this letter, whichever is later, and such tolls shall remain in effect until the day before the Board's final order on the RH-3-89 proceeding comes into effect.

TransCanada is directed to serve a copy of its application and this letter on all parties to RH-1-88 and RH-3-89.

Yours truly,

Marie Tobin
Secretary

Appendix VI

File No.: 1562-T1-29

Date: 5 October 1989

Hearing Order RH-3-89 Directions on Procedure

TransCanada PipeLines Limited Application for Tolls Effective 1 January 1990

By application dated 26 July 1989, as revised 27 September 1989, TransCanada PipeLines Limited ("TransCanada") has applied to the National Energy Board ("the Board") for certain orders respecting tolls under Part IV of the National Energy Board Act.

Having considered the application on 5 October 1989, the Board decided to hold a public hearing. The hearing will commence on Monday, 27 November 1989 in Ottawa, Ontario. The Board directs as follows:

PUBLIC VIEWING

1. TransCanada shall deposit and keep on file, for public inspection during normal business hours, a copy of the application in its offices at Commerce Court West, 54th Floor, corner of King and Bay Streets, Toronto, Ontario and in its Calgary office, 530-8th Avenue S.W. A copy of the application is also available for viewing during normal business hours in the Board's Library, Room 962, 473 Albert Street, Ottawa, Ontario, and at the Board's Calgary office, 4500-16th Avenue, N.W.

INTERVENTIONS

2. Interventions are to be filed with the Secretary by 20 October 1989. Interventions

should include all the information set out in Section 32 of Part III to the Board's revised Draft Rules of Practice and Procedure dated 21 April 1987.

3. The Secretary will issue a list of intervenors shortly after 20 October 1989.

SERVICE OF THE APPLICATION AND WRITTEN EVIDENCE OF THE APPLICANT

4. Any additional written evidence that TransCanada wishes to present shall be filed with the Secretary and served on all parties to RH-1-88 and the parties listed in Appendix III of this Order by 11 October 1989.
5. Once the list of intervenors is issued by the Board, TransCanada is to serve its application and evidence on those intervenors who have not already been served with a copy of these documents.

INFORMATION REQUESTS TO TRANSCANADA

6. Information requests addressed to TransCanada are to be filed with the Secretary and served on all parties to the proceeding by 31 October 1989.
7. Responses to information requests made pursuant to paragraph 6 are to be filed with the Secretary and served on all parties to the proceeding by 7 November 1989.

WRITTEN EVIDENCE OF INTERVENORS

8. Intervenor's written evidence is to be filed with the Secretary and served on all other parties to the proceeding by 14 November 1989.

LETTERS OF COMMENT

9. Letters of comment are to be filed with the Secretary and served on TransCanada by 14 November 1989.

INFORMATION REQUESTS TO THE INTERVENORS

10. Information requests with respect to the material filed pursuant to paragraph 8 are to be filed with the Secretary and served on all parties to the proceeding by 21 November 1989.
11. Responses to the information requests made pursuant to paragraph 10 are to be filed with the Secretary and served on all parties to the proceeding by 27 November 1989.

HEARING

12. The hearing will commence in the Hearing Room of the National Energy Board, 473 Albert Street, Ottawa, Ontario, on 27 November 1989 at 1:00 p.m.

SCOPE OF HEARING

13. The Board will examine the issues of throughput, rate base, cost of service and rate of return. The Board will not hear evidence at this hearing on toll design or tariff matters except for the throughput forecast.

SERVICE TO PARTIES

14. TransCanada shall serve one copy of these Directions on Procedure, including the appendices, forthwith on all parties to RH-1-88, and the parties listed in Appendix III of this Order. TransCanada is requested to file with the Board one copy of the list of all parties served.

NOTICE OF HEARING

15. The publications in which TransCanada is required to publish the Notice of Public Hearing are listed in Appendix II.

PROCEDURE FOR HEARING OF EVIDENCE

16. The evidence of all parties related to the issues of throughput, rate base and cost of

service will be heard first, followed by the evidence of all parties on rate of return.

With respect to the hearing of evidence, the following procedure shall apply:

- a) TransCanada shall present its evidence;
- b) Intervenor and Board Counsel shall have the right to cross-examine TransCanada's witnesses;
- c) Intervenor shall present their evidence in an order to be specified at the commencement of the proceedings;
- d) after each Intervenor has presented its evidence, other Intervenor, TransCanada and Board Counsel shall have the right of cross-examination; and,
- e) TransCanada may present reply evidence.

FILING AND SERVICE REQUIREMENTS

17. Where parties are directed by these Directions on Procedure or by the Board's revised *Draft Rules of Practice and Procedure* dated 21 April 1987, to file or serve documents on other parties, the following number of copies shall be served or filed.
 - (i) for documents to be filed with the Board, provide 35 copies;
 - (ii) for documents to be served on TransCanada, provide 3 copies;
 - (iii) for documents to be served on Intervenor, provide 1 copy.
18. Parties filing or serving documents at the hearing shall file or serve the number of copies specified in the preceding paragraph.
19. Persons filing letters of comment should serve one copy on TransCanada and file one copy with the Board, which in turn will provide copies for all other parties.
20. Parties filing or serving documents fewer than five days prior to the commencement of the hearing shall also bring to the hearing a

sufficient number of copies of the documents for use by the Board and other parties present at the hearing.

SIMULTANEOUS INTERPRETATION

21. The proceeding will be conducted in either of the two official languages and simultaneous interpretation will be provided.

GENERAL

22. Unless otherwise directed by the Board, the hours of sitting shall be from 8:30 a.m. until 1:00 p.m. except Mondays when the hours shall be from 1:00 p.m. to 5:00 p.m.
23. All parties are asked to quote Order No. RH-3-89 and File No. 1562-T1-29 when corresponding with the Board in this matter.
24. Subject to the foregoing, the procedures to be followed in this proceeding shall be governed by the Board's revised *Draft Rules of Practice and Procedure* dated 21 April 1987.
25. For information on this hearing, or the procedures governing the hearing, contact Ms. Vivien St. George, Regulatory Support Officer, at (613) 998-7196.

NATIONAL ENERGY BOARD

Louise Meagher
Secretary

Appendix I to Order RH-3-89

NATIONAL ENERGY BOARD NOTICE OF PUBLIC HEARING

TransCanada PipeLines Limited Application for Tolls Effective 1 January 1990

The National Energy Board ("the Board") will conduct a hearing into an application dated 26 July 1989, as revised 27 September 1989, by TransCanada PipeLines Limited ("TransCanada") pursuant to Part IV of the *National Energy Board Act* for certain orders respecting tolls that TransCanada may charge for service rendered for the period 1 January to 31 December 1990.

The hearing will commence on Monday, 27 November 1989 at 1:00 p.m. local time in the Hearing Room of the National Energy Board, 473 Albert Street, Ottawa, Ontario.

The hearing will be public and will be held to obtain the evidence and relevant views of the interested parties on the application.

Anyone wishing to intervene in the hearing must file a written intervention with the Secretary of the Board and serve three copies on TransCanada at the following address:

Mr. James M. Murray
Senior Legal Counsel
TransCanada PipeLines Limited
P.O. Box 54
Commerce Court West
Toronto, Ontario
M5L 1C2

TransCanada will provide a copy of the application to each intervenor.

The deadline for receipt of written interventions is 20 October 1989. The Secretary will then issue a list of intervenors.

Anyone wishing only to comment on the application should write to the Secretary of the Board and send a copy to TransCanada. The deadline for receipt of comments is 14 November 1989.

Information on the procedures for this hearing (Hearing Order No. RH-3-89) or the Board's revised *Draft Rules of Practice and Procedure* dated 21 April 1987, governing all hearings (both documents are available in English and French) may be obtained by writing to the Secretary or telephoning the Board's Regulatory Support Office at (613) 998-7204.

Louise Meagher
Secretary
National Energy Board
473 Albert Street
Ottawa, Ontario
K1A 0E5

(Telex No. 0533791)
(Telecopier No. 990-7900)

Appendix II to Order RH-3-89

"The Times Colonist"	Victoria, British Columbia
"Sun", Vancouver Province" and Vancouver, British Columbia	"Le Soleil de Colombie"
"Herald" and "Sun"	Calgary, Alberta
"The Edmonton Journal", and "Le Franco-Albertain"	Edmonton, Alberta
"The Leader Post", and "Journal L'eau Vive"	Regina, Saskatchewan
"The Winnipeg Free Press"	Winnipeg, Manitoba
"La Liberté"	St. Boniface, Manitoba
"Le Devoir", "La Presse", and "The Gazette"	Montreal, Quebec
"Le Journal de Québec", "Le Soleil", and "The Chronicle Telegraph"	Quebec, Quebec
"The Globe and Mail", "Toronto Star", "The Financial Post", "Financial Times of Canada", and "L'Express"	Toronto, Ontario
"The Ottawa Citizen", "Le Droit", and the "Canada Gazette"	Ottawa, Ontario

Appendix III to Order RH-3-89

Assistant Deputy Minister for Energy
Ministry of Energy, Mines and Petroleum
Resources
Parliament Buildings
Victoria, British Columbia
V8V 1X4

Senior Solicitor
Legal Services Division
Department of Energy
10th Floor, South Tower, Petroleum Plaza
9915-108th Street
Edmonton, Alberta
T5K 2C9

Attorney General for the Province of
Saskatchewan
Department of Justice
8th Floor, 1874 Scarth Street
Regina, Saskatchewan
Attention: Mr. Greg Blue

Attorney General for the Province of Manitoba
Legislative Buildings
Winnipeg, Manitoba
R3C 0V8

General Manager
British Columbia Petroleum Corporation
6th Floor
1199 West Hastings Street
Vancouver, British Columbia
V6E 2E1

Commission Secretary
British Columbia Utilities Commission
4th Floor, 800 Smithe Street
Vancouver, British Columbia
V6Z 2E1

Procureur général du Québec
Édifice Delta
1200 route de l'église
Ste Foy (Québec)
G1R 4X7

Mr. S. Ironstone
Canadian Gas Association
Suite 1101, 50 O'Connor Street
Ottawa, Ontario
K1P 6L2

**Appendix IV to
Order RH-3-89**

TIMETABLE

A	TCPL application filed	26 July 1989
B	TCPL update to reflect RH-1-88 filed	27 September 1989
C	TCPL written evidence to be filed	11 October 1989
D	Interventions to be filed	20 October 1989
E	Information requests to TCPL due	31 October 1989
F	Responses by TCPL due	7 November 1989
G	Intervenors' written evidence due	14 November 1989
H	Letters of comment due	14 November 1989
I	Information requests to intervenors due	21 November 1989
J	Responses by intervenors due	27 November 1989
K	Hearing to begin in Ottawa	27 November 1989 (1:00 p.m.)
L	Hearing to adjourn for Christmas	21 December 1989
M	Hearing to reconvene, if necessary	9 January 1990 (1:00 p.m.)

Appendix VII

File: 1562-T1-29

6 November 1989

VIA TELECOPIER

Mr. James M. Murray
Senior Legal Counsel
TransCanada PipeLines Limited
P.O. Box 54
Commerce Court West
Toronto, Ontario
M5L 1C2

Dear Mr. Murray:

Re: TransCanada PipeLines Limited (TCPL)
Procedure for Corporate Relocation

The Board has considered the letter of TCPL dated 31 October 1989 setting out a proposed procedure for the consideration of TCPL's corporate relocation and requesting a modification to the order of the hearing of evidence.

In view of the magnitude of TCPL's announced relocation, and the limited time available before the commencement of the hearing, the Board has reservations concerning TCPL's ability to accurately identify and estimate the costs and savings that will be realized in 1990 in sufficient time for this matter to be appropriately examined within the context of this toll proceeding. The Board considers that it would be more appropriate for these costs and savings to be examined at TCPL's next toll hearing, at which time the nature and magnitude of the costs and savings would be known with more certainty. Accordingly, the Board denies your request that supporting information and written direct evidence related to the relocation be filed with the Board for consideration in the RH-3-89 hearing.

In view of this decision, the Board requires that TCPL file for consideration in the RH-3-89 proceeding, a proposed deferral methodology whereby any costs related to the move, incurred by TCPL during 1990, can be accumulated. This deferral mechanism should provide for the accumulation of any amounts included in the 1990 forecast revenue requirement, that ultimately are not incurred as a result of the move, so that these savings can be netted with the aforementioned costs.

The Board requires that TCPL's proposals in this regard be filed with the Board and served on interested parties by 10 November 1989. Information requests by intervenors on this submission are to be filed with the Board and served on all parties by 17 November 1989, while TCPL's responses thereto are due 24 November 1990.

The Board accepts TCPL's proposal to modify the procedure for the hearing of evidence set out in paragraph 16 of Hearing Order RH-3-89, so that the evidence of all parties on rate of return will be heard first, followed by the evidence of all parties related to the issues of throughput, rate base and cost of service. Attached is an Order amending the Directions on Procedure in this regard.

The Board requires TCPL to serve a copy of this letter as well as the attached Amending Order on all parties as soon as possible.

Yours truly,

Marie Tobin
Secretary

6 November 1989

**ORDER AO-1-RH-3-89
(Amending Hearing Order RH-3-89)**

Amendment to Directions on Procedure

**TransCanada PipeLines Limited
("TransCanada")
Application for Tolls Effective
1 January 1990**

WHEREAS on 5 October 1989 the Board issued Hearing Order RH-3-89 which established the timing, filing requirements and other procedural directions for the RH-3-89 hearing;

AND WHEREAS on 31 October 1989 TransCanada requested the Board to amend the procedure for the hearing of evidence so that the evidence of all parties on rate of return would be heard first;

AND WHEREAS the Board has decided to grant TransCanada's request;

THEREFORE IT IS ORDERED THAT, Hearing Order RH-3-89 be amended by deleting paragraph 16 and replacing it by the following:

"16. The evidence of all parties on rate of return will be heard first, followed by the evidence of all parties related to the issues of throughput, rate base, and cost of service.

With respect to the hearing of evidence, the following procedure shall apply:

- (a) TransCanada shall present its evidence;
- (b) Intervenor and Board Counsel shall have the right to cross-examine TransCanada's witnesses;
- (c) Intervenor shall present their evidence in an order to be specified at the commencement of the proceedings;
- (d) after each Intervenor has presented its evidence, other Intervenor, TransCanada and Board Counsel shall have the right of cross-examination; and,
- (e) TransCanada may present reply evidence."

NATIONAL ENERGY BOARD

Marie Tobin
Secretary

TransCanada seeks to amend its application by deleting its 1990 forecast departmental and general expenses and substituting numbers that the Board has approved for 1989 with adjustments for an increase in salaries and a forecast for the NEB Cost Recovery Program. TransCanada has requested this change in conjunction with its proposed corporate relocation deferral account described in the response to the Board's Information Request No. 67. In TransCanada's view, this change will expedite the hearing of its application by avoiding the need for its witnesses to address, in this hearing, any matters related to departmental and general expenses for the 1990 test year other than the 2 adjustments. TransCanada proposes that an examination of the balance of the 1990 numbers should be deferred until such time as the Board decides on the disposition of the balance contained in the corporate relocation deferral account.

TransCanada also requested that the Board establish the proposed deferral account, together with the requested rate of return, on an interim basis, immediately.

Regarding the first request, the Board has decided to accept TransCanada's proposal to amend its application by incorporating the 1989 approved departmental and general expenses in conjunction with its corporate relocation deferral account. Given that the 1989 numbers resulted from a decision of the Board following a hearing in which interested parties had an opportunity to test the evidence and present their views, the Board does not require TransCanada's witness to speak to those numbers, except for the two adjustments proposed. The Board does, however, expect TransCanada to provide witnesses to speak to such matters as:

- (a) the workings of the deferral methodology proposed by TransCanada for the relocation and the appropriateness of any possible refinements to that proposal;
- (b) principles and procedures used by TransCanada in allocating costs between regulated and non-regulated activities; and

- (c) planning and budgeting processes used in deriving expense estimates.

These latter two issues are, in the Board's view, matters of policy and procedure that are not specifically related to the 1989 numbers already approved, to the move, or to the deferral account and, as such, are capable of being examined in this hearing.

The Board is aware that this Ruling will have the effect of limiting, in this proceeding, the scrutiny by interested parties of the 1990 departmental and general expenses and the costs and savings associated with the relocation. However, the Board would also like to make clear that this Ruling in no way prejudices the manner in which the balance that is deferred in the relocation deferral account should be disposed. The disposition of the balance in that deferral account would be dealt with in a future proceeding. At that time the Board would consider all matters associated with the relocation and the effect on the departmental and general expenses for 1990, (including, but not limited to such matters as:

- the rationale for the relocation and the portion, if any, of the related costs that should be allowed to be recovered in tolls;
- the prudence of the costs incurred for the move; and
- whether any costs judged allowable should be amortized and, if so, over what period.)

With respect to TransCanada's request that an interim deferral account, together with the requested rate of return be established immediately, the Board is not persuaded that sufficient urgency exists to justify such extraordinary relief. Accordingly, this request is denied. The Board will render its decision on the timing and methodology of the deferral account after it has heard the evidence and submissions of parties in these matters.

